

Key Decision Required:	Yes	In the Forward Plan:	Yes
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CABINET

20 NOVEMBER 2015

REPORT OF COAST PROTECTION PORTFOLIO HOLDER

A.5 CONSTRUCTION OF NEW BEACH HUTS

(Report prepared by Ian Taylor)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To seek approval for the construction of 12 new beach huts along the Clacton / Holland-on-Sea seafront funded from the Council's Austerity Reserve.

EXECUTIVE SUMMARY

- At its meeting on 23 October 2015, Cabinet considered a report that set out various projects relating to the regeneration of the Clacton to Holland Coastline, which included the proposal to build 12 new beach huts and resolved (minute 81 refers) that:
 - 1) *In principle, 12 new beach huts be constructed along the seafront with further details being reported to the next meeting of the Cabinet;*
- This report therefore sets out the further details referred to above and seeks agreement to use **£100,000** from the Austerity Reserve to meet the cost of the project
- The wider provision of beach huts was set out in the Beach Hut Strategy for Tendring which was adopted by the Council in 2013 which encourages and authorises the construction and subsequent rental and / or future sale of beach huts by the Council as a means of supporting further seafront related improvements.
- Further related seafront improvements referred to above would include the future recharge of the newly constructed beach along the Clacton to Holland coast, which is currently estimated as costing £150,000 each year to fund the total cost of £1.5m every 10 years. The performance of the scheme will evolve and be monitored over the next few years which may require a change to this estimate recharge period.
- Beach huts make a significant contribution to coastal areas of Tendring attracting visitors from inside and outside the District providing a valuable source of revenue directly to the Council and indirectly to local businesses.
- Based on an option appraisal, it is proposed to construct at least 12 new

beach huts along the Clacton / Holland-on-Sea seafront for resale at a cost of up to **£100,000** which will generate additional income via the annual site licence fee charged to the new owners.

- However based on market conditions and the location of the beach huts, it is recognised that retaining ownership of some of the new beach huts for rent may provide a favourable alternative approach, although this would be balanced against the background of maximising the return on investment.
- A number of delegations to officers are set out in the recommendations to provide the necessary flexibility to maximising the return on investment and reacting to any changes in the market once constructed.

RECOMMENDATION(S)

It is recommended that Cabinet:

- a) Approves the construction of 12 beach huts along the Clacton to Holland frontage with the cost of up to £100,000 being funded from the Austerity Reserve in 2015/16.**
- b) Authorises the Corporate Director (Coastal and Seafronts) in consultation with the Portfolio Holder for Coast Protection to agree the locations for the new beach huts.**
- c) Agrees to the principle of the beach huts being initially offered for sale and makes the following delegations to the Corporate Director (Coastal and Seafronts) based on the principle of maximising the return on investment:**
 - **Determination of the most appropriate process for lease / selling / marketing the beach huts**
 - **Determination of the annual licence fee for the beach huts that are sold**
 - **Determination of the mix of beach huts for lease / resale or rent to reflect market conditions**
 - **Determination of the rent levels for any beach huts rented out.**

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The regeneration of this stretch of coastline will contribute to the following corporate priorities:

Our prosperity

Build a thriving local tourism industry

Promote sustainable economic growth

Our people

Reduce health inequalities and disadvantage

Promote healthy and active lifestyles

Our place

Regenerate the district and improve deprived areas

Promote and enhance our environment, countryside and coast.

In addition to supporting key Council strategies in respect of Tourism and Inward Investment.

FINANCE, OTHER RESOURCES AND RISK

The construction cost of the beach huts have been identified through a wider tendering process at a cost of **£4,850** per beach hut. Therefore based on the proposed provision of an additional 12 beach huts along the Clacton to Holland Coastline, the direct cost of the beach huts is **£58,200**.

An additional amount of **£41,800** has been identified to undertake the necessary site / ground works. This cost recognises that based on potential locations for some of the new beach huts, the necessary ground works may be more challenging with some potentially being located directly on the beach.

It is proposed to fund the total cost of up to **£100,000** from the Austerity Reserve which currently totals **£3.469m**. This project fits well with the underlying principle of the Austerity Reserve being used to fund invest to save projects, which can be demonstrated via the optional appraisal below.

The following options have been considered in terms of how the beach huts should be marketed once constructed:

Option 1 – The Council retains ownership of the beach huts and offers them for rent based on the existing fee structure in place for similar beach huts elsewhere along the coast with potential advantages being:

1. Revenue from rent alone is likely to be higher than revenue from sale and subsequent lease / licence of the site.
2. It is possible to attract a larger number of people to the seafront by renting out the beach huts particularly if short term rental periods are adopted.
3. The Council retains complete control over its assets.

Option 2 – Sell the beach huts and charge the new owners an annual licence fee similar to other beach huts elsewhere along the coast with potential advantages as follows:

1. The return on the initial investment can be very quick and to enable the initial investment to be repaid to invest in further investment opportunities such as the wider seafront regeneration projects.
2. The Council will not be liable for all future maintenance / insurance of the beach huts.
3. The Council will not require staff to manage the administration and maintenance including cleaning and inspection.

Appendix A sets out the direct financial outcomes from the option appraisal which includes some sensitivity testing around amounts such as potential selling prices. Based on the rate of return and payback period, with Option 2 providing the most financially advantageous approach.

Based on the current market estimate of the likely resale value of between **£12,000** and **£15,000**, the payback period would be immediate with income in excess of the initial construction costs. This money could then be 'recycled' and invested in other seafront regeneration activities which could include the provision of additional beach huts. Based on setting a licence fee of **£500** for the new beach huts, additional ongoing revenue of **£6,000** would be achievable. This would in effect provide an annual on-going income stream at no net investment cost to the Council.

Subject to market conditions and location of the huts, it may be possible to charge a higher annual licence fee. To provide pricing flexibility to react to market conditions, a delegation to officers is set out within the recommendations above.

Option 1 does provide a greater level of annual income, but with no recovering of the initial investment cost, it produces a lower rate of return and significant pay back periods which in turn limits the 'recycling' of the Austerity Reserve for wider investment opportunities.

It is however recognised that the Council may not wish to or be able to put 12 beach huts up for sale at the same time, especially if the market is slow to react to this level of initial supply. It would therefore be possible to rent any retained beach huts in the medium to longer term which would still provide a good rate of return as set out in **Appendix A**. A delegation to officers is therefore included in the recommendations above to enable a mix of both resale and rent, should the need arise, set against the underlying principle of maximising the return on investment.

In terms of the process to market the beach huts for sale, it is currently proposed to use a 'closed bid' approach with a reserve price and / or market them via a local agent. A delegation is included in the recommendations above to enable officers to put in place the necessary arrangements to maximise the return on investment.

It is acknowledged that there are a number of delegations to officers set out above, but a high degree of flexibility is required to enable the Council to react to the market to achieve value for money from its investment. This level of delegation is also consistent with other property/asset related matters for these individual decisions.

Based on the success of this project, there may be opportunities to review the terms, conditions and fees for existing beach hut owners along the Clacton to Holland frontage.

Risk

The market for the sale and / or rent of beach huts is like all markets subject to change and on occasions some volatility.

Should the market for beach hut rental or purchase decline the return on the initial **£100,000** investment will take longer or may not materialise. However even if the resale value is as low as **£8,333**, the full investment cost would be recovered. This cost is currently considerably lower than that being obtained by private vendors along the same coastline.

However, demand for beach huts remains high and the market fairly constant. Beach huts are a popular asset and have remained popular despite recent economic trends.

The Council owns all land for possible beach hut development along this section of coast. Therefore prudent management of the supply and demand for beach huts both for sale and /or rent should ensure minimal risk to the Council's investment and a good balance of revenue and capital income.

However it is important that beach huts sold privately are done so on the basis that standards are maintained and colours preserved to protect the integrity of the scheme and the intended refurbishment and regeneration of the seafront.

LEGAL

Cabinet adopted the Beach Hut Strategy for Tendring in October 2013, (decision number 2343) and authorised officers to explore and implement opportunities to generate additional capital and/or revenue income from the sale or lease of new beach huts.

The land on which beach huts are situated belongs to the Council and is a major asset, subsequently; the Council is under a statutory duty to manage its assets for the benefit of the District. The major coast protection works undertaken along the Clacton to Holland Coastline cost in excess of **£32m**, which amongst a number of benefits, protects the life of privately owned beach huts for the foreseeable future. It is therefore reasonable to consider the cost of these works when determining the level licence fees or rental charged for occupation of Council land and use of amenities along the Clacton to Holland Coastline.

Should the marketing and disposal of the new beach huts demonstrate higher rates are reasonable, the Council is under a duty to review the current annual site licence fee arrangement for existing beach huts and consider market rental through longer leases, providing more security of occupation for the private owners of the beach huts. The outcome of this review will be reported back to Cabinet before any decisions are made.

OTHER IMPLICATIONS

Consideration has been given to the implications of the recommendations proposed and any significant issues are set out below.

The proposal if agreed will improve seafront assets in line with tourism and inward investment strategies and policies.

Consultation/Public Engagement – The proposal if agreed will raise the profile of the seafront both from within the District and outside of it. The proposal supports the adopted Beach Hut Strategy for Tendring.

Crime and Disorder – Improving seafront assets is part of a wider strategy to combat anti-social behaviour by developing an evening economy on the seafront and extending the traditional summer season. There is a clear correlation between neat

well managed beach huts and lower crime as opposed to poorly maintained beach huts or seafront assets.

Equality and Diversity / Health Inequalities

New beach huts will increase opportunities for more families to visit the seaside and promote healthier lifestyles raising the profile and reputation of the Council.

Area or Ward affected – All

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The seafront and associated seafront activity is recognised as important to the future economic prosperity and well-being of the District.

The Beach Hut Strategy for Tendring adopted by the Council in 2013 authorises the Council to explore and implement opportunities to generate additional capital and/or revenue income from the sale or lease of new beach huts utilising income from beach huts to fulfil the policy aims contained within the strategy as well as to improve seafront assets and facilities generally.

The construction of new beach huts in Clacton and other coastal areas of the District have demonstrated a clear demand for new, quality beach huts both for purchase and for rent.

Following completion of the Clacton to Holland on Sea coastal defence scheme the Council is currently supporting a number of seafront projects and initiatives designed to capitalise on the success of the scheme and to promote Clacton and Holland as a visitor destination.

The open market value of beach huts along the Clacton / Holland coastline as a direct consequence of the completed coastal defence works and new beaches has increased from **£4,000 / £6,000 to £12,000 / £15,000.**

Prior to the new coastal defence works demand for beach huts in this location would not support a business case for the construction of new beach huts.

It is anticipated the cost of beach hut construction will be up to **£100,000** depending upon what groundworks are necessary in the area that has potential for further beach hut development.

The new beaches are already attracting considerable attention as well as requests for further beach huts.

The opportunity to explore new locations and designs of beach huts are likely to further stimulate interest in the new beach area along the Clacton / Holland-on-Sea coast arising from the recent highly successful coastal defence project.

The financial section of this report above sets out the outcome from an optional appraisal in terms of identifying whether to sell or retain ownership of the beach huts once constructed. This has been set against the requirement to maximise the return on investment.

The option to sell and charge an annual licence fee has been identified as the most financially advantageous approach but it is recognised that retaining ownership of a number of beach huts may be advantageous subject to market conditions. There are lower risks associated with selling the beach huts as the cost of ownership, such as maintenance and insurance would not be incurred and there would be an administrative overhead if retained due to the need to inspect, clean and maintain the huts.

The recommendations set out above seek a number of delegations to enable officers the flexibility to react to market conditions to maximise the return on investment.

It is therefore likely that a pragmatic mix of some beach huts being sold whilst some retained will be reflected in the final outcome. This approach also enables the Council to develop / enhance its experience in this market which in turn will inform future beach hut provision along the Clacton to Holland coastline.

It is also recognised that quality new beach huts constructed by the Council will encourage existing beach hut owners to refurbish and improve their own beach huts increasing their market value, reducing incidents of crime and anti-social behaviour and in turn to help to regenerate this area and the wider District.

APPENDICES

Appendix A – Provision of Beach Huts – Option Appraisal

BACKGROUND PAPERS FOR THE DECISION

Report adopting the Beach Hut Strategy for Tendring 2013
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PROVISION OF BEACH HUTS - OPTION APPRAISAL

APPENDIX A

Option	Assumptions	Estimated Initial Cost	Capital Receipt Achievable	Net Cost to the Council	Annual on-going Income	Rate of Return	Payback Period (years)
		£	£	£	£		
Option 1 - Construct 12 Beach Huts for Rent	Assuming £500 annual rental income	100,000	0	100,000	6,000	6%	17
	Based on existing average annual rental income of £750	100,000	0	100,000	9,000	9%	11
	Assuming £1,000 annual rental income	100,000	0	100,000	12,000	12%	8
	Assuming £1,250 annual rental income	100,000	0	100,000	15,000	15%	7
Option 2 - Construct 12 Beach Huts to Sell	Assuming resale value of £10,000 and annual licence fee of £500	100,000	(120,000)	(20,000)	6,000	No net cost to Council to secure annual income stream.	Immediate Payback
	Assuming resale value of £12,000 and annual licence fee of £500	100,000	(144,000)	(44,000)	6,000		
	Assuming resale value of £15,000 and annual licence fee of £500	100,000	(180,000)	(80,000)	6,000		

Notes

Option 1 above based on assumption that maintenance and other associated costs will be met from within existing budgets.

Option 2 above based on setting a minimum fee for the new beach huts at £500.