

Worthing Wards: Heene, Marine & Goring

Worthing Beach Huts: Financial Options Appraisal

Report by the Director for Communities

1.0 Summary

- 1.1 This report provides information on beach huts sited on the foreshore in Worthing in response to a question raised at a previous Joint Overview & Scrutiny Committee of Councillor Bryan Turner, Worthing Borough Council's Cabinet Member for Regeneration, with responsibility for the Foreshore.
- 1.2 The question requested cost benefit analysis information to be provided on two models of ownership that WBC could operate for beach hut provision in Worthing.
- 1.3 **Model One:** The current model where WBC has a mix of private and council owned beach huts.
- 1.4 **Model Two:** Where all beach huts in Worthing are privately owned with the WBC selling off its current 129 Council owned beach huts.

2.0 Background

- 2.1 There are presently 129 council owned beach huts which are located on the foreshore between the west of Heene Road and east of King George 5th Avenue in Worthing.
- 2.2 There are 289 privately owned beach huts sited on Worthing's foreshore for which an annual licence fee is charged by the Council granting permission for the beach huts to remain on the foreshore for a 12 month period, renewable each year.
- 2.3 The private beach huts are located on the foreshore between the west of King George 5th Avenue, Worthing and east of Sea Lane Café, Goring.

3.0 Fees and Charges 2014/15

- 3.1 Appendix 1 details the 2014/15 Fees and Charges for council owned beach huts on Worthing Borough Councils foreshore.
- 3.2 Appendix 1 also details the 2014/15 fee received for a licence agreement granting permission to site a beach hut on the locations listed above which are available for private beach huts on Worthing Borough Councils foreshore.

4.0 Current Occupancy Rates and Waiting Lists

4.1 Council Beach Huts

4.2 Appendix 2 shows the current occupancy rates and waiting lists for the council owned beach huts in Worthing which are summarised below:

4.3 As of 24/02/2015, 124 out of 129 council owned beach huts were occupied with a waiting list of 377 people.

4.4 The 5 vacant beach huts have all been recently relinquished and the Council have offered them as available to hire to the people at the top of the waiting list and are presently awaiting their reply.

4.5 Private Beach Huts

4.6 All of the 289 plots where private beach huts can be sited in Worthing are fully let. The Council does not operate a waiting list for private beach huts as they are bought and sold on the open market. Once sold, the vendor approaches the Council and requests a new licence to be issued to the buyer. The new licence is issued to the buyer on payment of a fee by the Vendor which is set at three times the annual licence fee.

5.0 Current Profitability – Model 1

5.1 Profit Per Council Owned Beach Hut

5.2 The profit per beach hut each year varies depending on the amount of reactive and planned maintenance that is required. The reactive maintenance is usually in response to vandalism; break-ins; weather conditions and general wear and tear. The planned maintenance is cyclic, presently every 5 years and includes wood treatment, repairs and repainting where required.

5.3 Following complaints about the condition of the beach huts, it is intended from 2015 to reduce the time between planned maintenance from a 5 year cycle to a 3 year cycle.

5.4 Appendix 3 details the average profit per beach hut based on the proposed 3 year cycle of 2 years reactive maintenance and 1 year reactive and planned maintenance is estimated to be £385.15, with an annual profit estimate for 129 beach huts of **£49,680**

5.5 Profitability per Beach Hut Sites

5.6 The anticipated profit per beach hut site for 2014/15 is £391.67. For the 289 beach hut sites which are all let, this is estimated to realise a total profit of **£113,190**.

5.7 This gives a combined total annual profit of **£162,870** for Model 1 (the current Model). This excludes Chalets.

6.0 Model 2 - Potential Sale of Worthing's Council Owned Beach Huts

- 6.1 The Council's Estate section have carried out research on the current market value potential of Worthing Borough Council's owned beach huts.
- 6.2 Generally, the value of beach huts appears to vary greatly in West Sussex, however the Estates Section estimates that the values of individual council owned huts in Worthing could range from £8,000 to £12,000, depending on their position/condition.
- 6.3 Appendix 4 provides information on the present market for private beach huts in Adur & Worthing and the surrounding areas.
- 6.4 Given the good annual income presently received and the low maintenance liability (particularly with the sites), along with the current waiting lists, the beach huts, chalets and sites are considered to be an attractive investment opportunity to an investor if the Council decided to sell these assets.
- 6.5 As the Council's capital receipt threshold is £10,000, there would be no revenue budget advantage in selling off all of Worthing's council owned beach huts, chalets and beach hut sites off in one lot, as all receipts received would have to be capitalised.
- 6.6 There would however be a considerable Capital benefit if the 129 Council owned Beach Huts sites were sold off. The Capital receipts received could contribute towards helping to finance the WBC's capital programme, reducing the interest cost on any funds borrowed to finance the capital programme or the resources could be invested and generate a capital receipt.
- 6.7 Using the current sales estimate of £8,625.00 as the average price to be gained, if all 129 Beach Hut sites were to be sold, this would provide WBC with a one-off windfall of **£1,112,625.00** less fees if the average price was achieved. The same exercise could be carried out for chalets in the future if required.
- 6.8 WBC would still receive an annual revenue profit of **£50,530** (based on 2014/15 beach hut site profit margin of £391.67) for the right to locate the beach hut on the foreshore for the 129 beach huts which would be sold.
- 6.9 With the anticipated profit for the current 289 private beach hut sites of **£113,190**, this gives a combined estimated profit of **£163,720** for Model 2 based on 2014/15 estimates.
- 6.10 The annual profit which could be gained is broadly the same for both Models, however Model 2 has the considerable added benefit of potentially realising a Capital receipt in excess of £1 million after fees which could be invested to generate income or used to fund future WBC capital schemes and save on borrowing costs.
- 6.11 Further consideration and research would need to be undertaken on the potential impact of selling off such a large number of individual beach huts, chalets and beach hut sites may have on the balance of supply and demand and ultimately the achievable market price. It should also be noted that the Council-owned beach

huts are provided in 'terraces' whereas the privately owned beach huts are 'detached'. This could have implications on the allocation of future maintenance responsibilities as well as the achievable market price.

- 6.12 In addition to the above, there also needs to be further research undertaken as to how the Council owns the land on which some of the Worthing Borough Council-owned beach huts/sites are located. This is because the Council holds some land under a possessory title (usually arising where ownership by proof of deeds is unavailable).
- 6.13 Where there is a sale of land held by the Council with a possessory title additional cost to the Council will be incurred for the purchase of indemnity insurance by the Council to protect both parties to the sale. The cost of the indemnity insurance may in turn affect the profits received from such a sale. In addition there is a suggestion that the money received from the sale may be reduced if the land is not sold with title absolute, although in reality quantifying the difference in value between a sale with absolute title, and a sale with possessory title with relevant indemnity insurance, is minimal.
- 6.14 There is the element of risk of WBC losing control of how the huts are managed and maintained in the future, which potentially could have a negative impact on the town's reputation. This could however be negated by setting strict terms and conditions regarding the future maintenance requirements of the beach huts.
- 6.15 Given that both Models provide broadly the same annual profit margins per annum, but Model 2 also provides a substantial Capital receipt. It is recommended that further work is urgently undertaken to research the potential sale of WBC owned beach huts to achieve this Capital receipt for re-investment in other Capital funded schemes. This would support the Councils' corporate priority of ensuring value for money and low council tax through generating increased income.

7.0 Proposals

- 7.1 To reduce the planned maintenance cycle down from 5 years to 3 years intervals.
- 7.2 Based on the analysis carried out, it is recommended that consideration is given into selling off Worthing's Council owned beach huts to receive additional Capital income for re-investment in other WBC capital funded schemes.

8.0 Legal

- 8.1 s1 of the Localism Act 2011 empowers the Council to do anything an individual can do apart from that which is specifically prohibited by pre-existing legislation
- 8.2 S 111 Local Government Act 1972 provides that the council shall have the power to do anything (whether or not involving expenditure, borrowing, or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to the discharge of any of their function.

8.3 s123 Local Government Act 1972 empowers a local authority to dispose of land held by them in any manner they wish (subject to various constraints, details in the relevant legislation, such as a general need to obtain the best price possible).

9.0 Financial implications

9.1 There would be broadly the same level of revenue income gained per Year, but Model 2 provides WBC with a substantial capital sum which can either be reinvested or used to fund Capital schemes planned reducing the overall borrowing requirement. In summary:

	Net income per unit	Model 1 – Mix of rented and owned beach huts	Model 2 – Owned beach huts only
Net income from rental beach huts	£ 385.15	£'000 49.7	£'000 -
Income from licences	391.67	113.2	163.7
Add: Investment income @1%*		162.9	163.7 11.1
		162.9	174.8

*Potential investment income once all the beach huts are sold.

10.0 Recommendation

10.1 **That the Committee notes the contents of the report provided.**

That the Committee considers any views which it would like to forward to the Joint Strategic Committee for consideration.

Local Government Act 1972

Background Papers:

Appendix 1 - 2014/15 Fees and Charges for council owned beach huts, chalets and beach hut sites on Adur and Worthing Councils foreshore.

Appendix 2 - Present occupancy rates and waiting lists for the council owned beach huts and chalets in Adur & Worthing.

Appendix 3 – Profitability of Beach Huts and Private Beach hut Sites in Worthing

Appendix 4 – Market Information – October 2014

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Schedule of Other Matters

1.0 Council Priority

1.1 This proposal supports the following Council's priority: Ensuring value for money and low Council Tax.

2.0 Specific Action Plans

2.1 Matter considered and no issues identified.

3.0 Sustainability Issues

3.1 Matter considered and no issues identified.

4.0 Equality Issues

4.1 Matter considered and no issues identified.

5.0 Community Safety Issues (Section 17)

5.1 Matter considered and no issues identified.

6.0 Human Rights Issues

6.1 Matter considered and no issues identified.

7.0 Reputation

7.1 Matter considered and no issues identified.

8.0 Consultations

8.1 Matter considered and no issues identified.

9.0 Risk Assessment

9.1 Matter considered and no issues identified.

10.0 Health & Safety Issues

10.1 Matter considered and no issues identified.

11.0 Procurement Strategy

11.1 Matter considered and no issues identified.

12.0 Partnership Working

12.1 Matter considered and no issues identified.

Appendix 2

Beach Huts – Worthing Borough Council

	Number of:	Number Unoccupied	Number Occupied	Number on Waiting List
Council Beach Huts	129	5 1 out of 5 let, awaiting return of licence	124	377
Private Beach Huts	289	N/A	289	N/A

Profit per beach hut

	Huts Council with planned mntce (based on 2014/15 budget)	Huts Council without planned mntce (based on 2014/15)
Number of Huts	129	129
income per unit per Total (excl VAT)	850	850
Total expected income (number x fee (excl VAT))	<u>109650</u>	<u>109650</u>
Less Expenditure based on current budget/actuals (where avail)		
Rates	27743	27743
R & M - Planned - External Repairs & Redecoration	21894	0
R & M - Planned -Beach Huts clean down & Repair	3550	0
R & M - Reactive - Beach Huts Routine Mntce average expenditure	18439	18439
Vandalism average expenditure	2182	2182
less insurance	2662	2662
Misc Expenses (locks) average expenditure	458	458
Total expected expenditure	<u>76928</u>	<u>51484</u>
Balance total income less expenditure	32722	58166
per hut	129	129
	<u>253.66</u>	<u>450.90</u>
average based on mntce every 3rd year (2 x £450.90 + 1 x £253.66)		129 huts
	<u>385.15</u>	<u>49685</u>
income from site licence for privately owned beach hut (excl VAT)	<u>391.67</u>	

Appendix 4- Market Information October 2014

- 1.0 Some current examples in Adur and Worthing (which are all asking prices) of private beach huts presently for sale are detailed below:
- 1.1 Beach hut no. 202 near yacht club at £13,500 (asking) <http://www.beach-huts.com/beach-huts-for-sale-town-worthing.php>
- 1.2 Beach hut no 2 in Brighton Road Lancing at £9,500 (asking) <http://www.gumtree.com/p/flats-houses/a-nice-and-clean-beach-hut-in-brighton-road-worthing/1079898425>
- 1.3 Beach hut in Goring by Sea at £12,000 (asking) http://www.zoopla.co.uk/for-sale/details/34324443?utm_source=trov&utm_medium=feeds#YD7gy4S0JfMI SyBG.97
- 1.4 Others for sale nearby include:
- in Ferring at £18,000 (asking)
 - in Bognor at £12,500 (asking)
 - in Rustington at £15,000 (asking)
 - in Felpham at £10,500 and £12,500 (asking)

These values are for huts sold individually.

- 1.5 As an investment, based on an approximation of net income, it is estimated that the estimated value to be in the region of the following:
- 109 Beach Huts - approximately £940,000 or £8,625 each
 - 23 Beach Chalets - approximately £225,500 or £9,800 each
 - 289 Beach Hut Sites - approximately £1,213,800 or £4,200 each