



Title of proposal: <i>Capital scheme proposal with investment / Transformation or change project</i>	Super Hut Development, Fisherman’s Walk, Bournemouth			
Date of board: <i>include board(s) and date(s)</i>	Capital Transformation Programme Board 12 th November 2019			
Lead Officers:	Andrew Emery, Resort Development & Strategic Planning Manager			
Recommendation:	<ol style="list-style-type: none"> 1. For Transformation Board to approve the business case for delivery of 15 ‘Super Huts’ on Bournemouth Seafront, during 2020/21 funded from prudential borrowing. 2. For Transformation Board to recommend this report to Cabinet in December for approval to deliver the scheme and sell the super huts on 25-year leases to deliver a net capital return to the Council. Or, in the event that the huts do not sell, to rent out on an annual basis until market conditions improve. Cabinet will be requested to delegate to the Service Director the setting of the final sales price, subject to market conditions at the time. 			
Rationale for the Recommendation	<ul style="list-style-type: none"> - Maximise efficient use of Council assets to generate substantial new capital return whilst maintaining and improving ongoing revenue from beach huts. - Maintain momentum behind successful long-term programme for reinvestment schemes to safe-guard significant revenue streams for the Council 			
Financial Implications <i>Use the table in Section 5 for the detail</i>	One-off Impact Capital or Revenue	£454,055 Capex	On-going impact Pressure or Saving	£286,967 one off net capital return after costs £15k additional annual revenue

1. Brief description of the proposal

Describe the proposal? Why is it important?

Overview

This project sets out a low-risk invest to save super hut development on the seafront to generate a capital return to the Council and enhance annual revenue return.

The scheme has been identified as next phase priority developments contained within existing strategic plans and aspirations, namely:

- Bournemouth Seafront Strategy (adopted 2013)

Proposed Super Hut scheme

Since 2005 one established model of capital generation to fund wider improvements across the seafront in Bournemouth has seen the development of Super Huts at Durley Chine; Fisherman's Walk; Southbourne; and 3 schemes at Alum Chine. Schemes within the last 5 years have generated over £2.1m in sales revenue. Costs, delivery and sales models are well understood by the project team and represents a low risk to the Council.

Form of development:

The 'Super Hut' is a larger than standard beach hut built by the Council and made available for sale on a 25-year sub-lease. Huts are supplied unfurnished with no utilities and may only be used for day time use. Full repair and maintenance becomes the responsibility of the purchaser. The tenant is also required to pay an annual service charge to the Council. The purchaser may sell on the balance of the lease after one-year but a lease transfer fee is payable to the Council. Any future development of Super Huts will involve the relocation of existing private beach hut sites which are on one 1-year lease terms. Every effort will be made to relocate any tenants affected to a location as close to their existing one.

Previous sales history:

Scheme	Year	Sales price inc VAT	Sales
Durley Chine (14 huts)	2005	Sealed bids between £29,500 and £36,949	Following withdrawal of some bids, all huts eventually sold for £29,500 each
Fisherman's Walk (8 huts)	2007	£31,725	All huts achieved asking price
Alum Chine phase 1 (24 huts)	2009	£29,995	12 huts sold for asking price. Further 12, with restricted views, sold for slightly less
Alum Chine phase 2 (21 huts)	2014	£39,950	All huts achieved asking price with deposits taken within 3 weeks of sales launch
Southbourne (21 huts)	2016	£49,950	All huts sold for asking price. Sales achieved over 2 summers
Alum Chine phase 3 (4 huts)	2017	£59,995	All huts sold for asking price. Deposits for first 3 taken within first few weeks of release. 4 th hut took longer due to restricted view.

Since the first development of super huts, a number of huts have come back onto the market and the remainder of their leases sold privately, with the prior consent of the Council. The Council applies a handling fee to the seller. Subsequent sales prices achieved have been in line with depreciation of the remaining lease based upon the original sales price.

Currently, an annual service charge of £1,200 is applied to each hut, generating additional annual revenue to the Council. This is retail price index linked.

Future demand:

Demand for super huts and beach huts in general remains strong, with long waiting lists in some areas. Super hut developments are concentrated on the areas of seafront with the highest demand and market potential. Typically these areas are generally away from the main tourist beaches but possess good access to the cliff top, range of amenities such as fresh water taps, kiosks and toilets and have parking on the cliff top nearby.

Option is presented in the finance section to construct and rent out the 'super huts' on an annual basis as a back up plan should the huts fail to sell. In this scenario, the huts would still cover construction costs and generate a revenue surplus.

Process determining site evaluation:

Identification of future super hut sites applies the following criteria:

- Location can be anywhere within BCP seafront strip
- Ideally, location to be on council freehold land or otherwise not subject to commercial development agreement with third party. This minimises legal arrangements and maximises capital return to the Council.
- Location to be in a high demand area, maximising sales potential
- Ideally a site free of development and not allocated or identified for alternative use within the various seafront strategies
- If the site is already developed with beach huts, prioritise casual hire huts sites over annual tenancies
- If site has annual tenancies are impacted, prioritise sites where minimum relocation is required

In practice, all proposed remaining development sites already contain some form of beach hut, with the exception of areas between the Piers which are leased from the Meyrick Estate and have been automatically discounted due to low demand and risk of high cost / project delay around legal agreement with the Estate.

Consequently, some existing beach hut tenants will be required to relocate. The model for managing relocation will be based on the phase 2 Manor Steps Beach Lodges scheme delivered Spring 2019. In this scheme, private hut tenants were engaged early on in the design process and regularly kept up to date both directly and via the Bournemouth Beach Hut Association. Part of the scheme involved the creation of a raised deck behind an existing line of promenade mounted beach huts. The Council relocated private huts from the Manor Steps site to this new raised terrace, located within close proximity of their original position. Existing tenants saw no loss of views or access to the beach once the scheme was completed.

Proposed development site:

The proposed new development of super huts will be likely located on Council freehold owned land between Boscombe Pier and Fisherman's Walk. Three sites are currently being evaluated. The development will see 15 new super huts, subject to landscape design and extent of requirement for the scheme to fund relocation of existing private huts. Potential exists to expand the scheme and bring forward a second phase development of super huts in future.

Timescale

Programme assumes Cabinet decision in December 2019. Programme would see site works commence October 2020 and complete by Easter 2021.

The sales window for super huts is Easter to end of August.

Delivery:

The scheme will be project managed by the Tourism Destination Development team who have a strong track record in the delivery of seafront projects including: Smugglers Cove Adventure Golf, Manor Steps Beach Lodges, 4 previous developments of Super Huts and Pier Approach public realm scheme.

The Council’s internal Building Team contractor will oversee the site management and sub-tendering of hut supply and ground works. This team have delivered the most recent 4 developments of super huts on time and to budget.

Finance:

Final scheme costs will be subject to design development and will be funded from prudential borrowing over 2 years using a calculated prudential borrowing rate of 4% based on advice by Section 151 Officer. It is understood, however, that in reality borrowing rate used would be lower and based on inter local authority borrowing.

Previous scheme experience together with a budget cost review with some suppliers enables a reasonably accurate assessment to be made at this stage. Per hut costs are based on a development of 5 huts, so some cost efficiency savings will be achieved with greater volume of 15 huts. As a prudent measure, these additional cost savings have not been included in figures below.

The Legal team have developed a standard legal agreement from previous super hut developments. The sales process will be managed by the Council’s Seafront Contracts team. The first two developments of super huts utilised an external sales agent, but this approach was later discontinued due to not representing value for money. The option to use an external sales agent with the new development will be re-evaluated prior to any final decisions. The final sales price will be subject to further market review. A prudent sales figure based on previous sales history is used for the purpose of this business case.

Should the huts fail to sell, the scheme remains viable based on renting out the huts on an annual basis. This approach was taken in 2008 following the financial crash in which half of the Boscombe Overstrand Beach Pods failed to sell initially. The unsold pods were rented out and eventually all sold as the wider economy picked up.

Capital Costs	1 hut	15 huts
Planning application Super Huts		500
Landscape design		1,200
Ground Works and Supply of Huts	15,172	227,580
raised deck design		4,000
Deck construction inc moving huts		150,000
Planning application for raised deck		800
<i>PM</i>		10,000
sales collateral		200
Legal fees (super hut sales)		150
site promotion		400
Sub total		394,830
Contingency @ 15%		59,225
Grand Total		454,055

Capital Sales based on 2017 achieved sales price		
sales price inc VAT	59,995	899,925
Sales price excl VAT	49,995	749,925
Borrowing costs		
Total principal repaid		454,055

Total interest repaid over 2 years @ 4%		8,903
Net capital return to Council after construction costs		286,967
Sales price sensitivity analysis based on 2014 achieved sales price		
Sales price excl VAT	39,950	599,250
Net capital return to Council after construction costs		136,292
Revenue		
Loss of revenue	0	0
Additional revenue from Super Huts (inc VAT)	1,200	18,000
Net additional revenue (ex VAT)		15,000
Additional maintenance cost to Council	0	0
Sales Approach		
<p>All sales could commence (off plan) in the Spring and be managed in house by Seafront Contracts team. Site banners, social media and website used to advertise. Potential to engage a sales agent, although this has not proved successful in past. Sales agent fees not included in these calculations. Key sales window Easter to September. Sales likely to conclude in year 1 but worse case assumption could take up to 2 summers.</p>		
Rental not sell new Super Huts		
<p>This section sets out how the super huts could be rented out at the current annual rental price charged in Bournemouth for huts that are half the size, and still cover the scheme development costs over 25 year borrowing period. This is designed to show worse case scenario on event of slow or none-existent sales still resulting in low financial risk to Council.</p>		
Additional Capital cost		
Internal fit out of huts	1,000	15,000
Total capital cost inc. build		469,055
Revenue projection		
Based on standard (smaller) annual hut	2,249	33,735
Annual borrowing costs		
over 20 years @ 4%		33,186
Net revenue less borrowing cost (over 20 yrs)		549
Rental projection sensitivity modelling		

Super huts are approx. twice as larger as existing annual huts so some scope to charge higher price. Indicative modelling below is based on an figure between two relevant examples.

Smaller Fishermans Walk Council casual hire hut rented for 52 weeks of year	3,099	
Boscombe Overstrand Pod (larger and features power)	5,000	
Potential rental estimate for Fishermans' Walk Super Huts	4,100	61,500
Annual borrowing cost over 20 years @ 4%		33,186
Net revenue less borrowing		28,314

Environmental Impact

The scheme will see upgrade to the public realm and beach hut infrastructure within an already developed footprint. In consequence, environmental impacts are minimal. The new super huts and raised deck for relocated existing smaller huts will be constructed off site in modular form, minimising time on site for construction and disruption to public access. Public access along the promenade will be maintained throughout.

2. What are the risks of not making the change?

Reputational, financial, statutory, efficiency?

Risks of not undertaking the project revolve around lost opportunity to maximise efficient use of site and capitalise on customer demand for new beach huts. The scheme is projected to generate a significant capital return on investment and enhance ongoing revenue.

There are no reputational or statutory risks associated with not undertaking the development.

3. Options considered to deliver the proposal

Consider the do-nothing option -Can the status quo continue? What are the other options and why have they been discounted?

The do-nothing option will risk loss of momentum around a hitherto sustained and successful long-term reinvestment programme. The consequence will be:

- Loss of commercial sector confidence in tourism product if Council is seen to abandon commitment to delivery of long term vision for seafront. Impacts would trickle through to wider hotel, F&B and leisure sectors. Could lead to erosion of trust between Council and tourism industry bodies.
- Window for Works is generally limited on seafront to winter months due to impact on visitor experience. Planning and procurement build up to scheme delivery takes place over summer months. Do-nothing option now has a knock-on effect limiting any chance of Works taking place Winter 2020/21. Council's future delivery aspirations would be put back over 12 months.
- Do-nothing places greater pressure on Council's tourism services ability to contribute to future Council-wide savings through growth. Savings would have to be achieved by cutting services instead or by putting up beach hut annual charges considerably.
- Further degrading of existing facilities resulting from visitor and environmental pressures. Reinvestment costs increase exponentially the longer a site is left to decay. Longer term costs to Council would be higher as a result of short term 'do-nothing' option.
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4. Consultation with Officers and Members

Include all who have been involved, include their views in the feedback

Who has been consulted	Provide their name and their feedback
Strategic / Executive Directors	Bill Cotton. Revisions to timeline; balance outcomes to include social and environmental; develop self-funding options for feasibility
Portfolio Holders	Cllr Lewis Allison
Heads of Service	Chris Saunders; Amanda Barrie.
Corporate Finance / 151 Officer	Shirley Haider. Re-focus business case around Super Hut development. Project identified as a low risk invest to save option.
Legal / Monitoring Officer	
HR and OD	
IT and IS	

Policy / Consultation	
Communications / Marketing	Melanie Brown
Major Change	Sarah Good
Others	

5. Financial implications? *Are there any financial implications in making the change?*

5a. One-off impact

Description	Budget £	Actual £	Amount £	Category	Funding
Super Hut Development	£454,055			One Off Capital Cost	Pru Borrowing
Super Hut Sales	Up to -£899,925			One Off Capital Return	Sales
Total One-off amount being funded by existing resources					
Total One-off amount being funded by other resources			£454,055		
Total One-Off impact			£454,055		

5b. On-going impact

Description	Budget £	Actual £	Amount £	Category	Funding
Super Hut revenue	-£15,000			Revenue uplift	Additional site mgmt. fees
Total Ongoing impact being funded by existing resources				Is this a future year pressure or (saving)	
Total Ongoing impact being funded by other resources			-£15,000	Revenue uplift	
Total On-going impact					

6. Public Sector Equalities Duty

Have you considered how this change may affect people protected under the Equality Act?

EIA Screening Tool	Yes/No/Maybe	Comments
Does the policy/service affect service users, employees or the wider community?	Y	Will deliver community and infrastructure improvements including improved accessibility
Is it a major policy/service with a significant effect on how functions are delivered?	N	A continuation of existing long term programmes of improvement. Will result in improvements to services
Will it have a significant effect on how other organisations operate?	N	

Does it involve a significant commitment of resources? (human or financial)	Y	Will require significant capital investment to deliver projects some of which will come from commercial sources and grants
Does it relate to an area where there are known inequalities?	Y	Inequalities of access to leisure and services have been identified and will be addressed by the programme
Does it relate to a service that is currently underused by people it should reach?	Y	While the seafront is very well used by residents, some communities do not access the seafront due to issues around accessibility, transport and range of services on offer. Projects will deliver improved community facilities and access.
Does the policy/service relate to functions that previous consultation has identified as important to a particular group?	Y	Various consultations across BCP area have informed strategic plans and Seafront Strategies upon which this feasibility Programme is based
Do different groups have different needs or experiences in relation to the policy/service?	Y	Principally around access.
Is there likely to be a positive or negative impact in terms of equality?	Y	Positive

7. Does this proposal need consultation or communication with the public or other key stakeholders? Have you engaged the relevant teams? What needs to be consulted upon? Or communicated? Which stakeholders need to be included and when does this need to happen?

Each proposed scheme will require its own engagement with the community and key stakeholders as part of the planning and development process. The development of concepts and viable business models funded by this feasibility project forms the necessary first step prior to further engagement which will form one of the outputs of the project.

Key stakeholders include: Elected Members, land owners, statutory authorities, resident groups, tourism industry groups, potential investors, NGO's and other Council departments.

A Stakeholder Engagement Plan will be developed with the Council's Consultation team as part of the project.

8. Proposal Approved at Programme Boards

Date	Comments

9. Document Version Control:

V0.1	Draft -
V2	Supported by Transformation Board Sept, subject to future approval by Cabinet
V3	Updated calculations modelling borrowing rate at 4% as per Section 151 Officer advice. Revised programme reflecting delay (v2 programme assumed project commencement Sept 2019, now revised to January 2020)

