
EVALUATION OF RETENTION OR DISPOSAL OPTIONS FOR COASTGUARD COTTAGES, VICTORIA PARADE, RAMSGATE

To: **Cabinet - 10 September 2015**

Main Portfolio Area: Communities

By: **Bob Porter, Interim Head of Housing**

Classification: **Unrestricted**

Ward: **Sir Moses Montifiore**

Summary: This report considers options for the future ownership of 11 grade II listed, Housing Revenue Account (HRA) properties at Coastguard Cottages, Victoria Parade, Ramsgate. It details the estimated costs of essential structural repairs to the buildings and the potential capital receipts that could be achieved for the disposal of the properties and land.

The report recommends that Cabinet approve the piecemeal disposal of these properties as they become vacant. It recommends a HRA revenue budget of £30,000 for work to facilitate the disposals, to be offset against the receipts obtained. It further recommends a HRA capital budget of £324,000 for essential works at 5 of the properties, with funding vired from the HRA Major Repairs Reserve.

For Decision

1.0 Introduction and Background

- 1.1 The Coastguard Cottages are located in Victoria Parade, Ramsgate. They occupy an elevated site in the East Cliff area of Ramsgate with uninterrupted views of the sea. They are grade II listed buildings, which is defined as buildings that are nationally important and of special interest. The owners of listed buildings are required to maintain and protect the buildings and to obtain listed building consent for any works.
- 1.2 The buildings were constructed by the Admiralty in 1865 for the coastguard service and consist of 18 individual properties; 4 flats and 14 houses. Of the total, the Council owns the freehold of 11 homes and holds the assets within the HRA. Of these homes, 10 are held for social renting purposes and one is a leasehold property. The remaining 7 homes are in private ownership having previously been disposed of by the Council under the right-to-buy legislation. A plan of the site is attached at annex 1. The plan shows that, in addition to 11 homes, the Council owns the freehold interest of the communal gardens, footpaths and boundary walls.
- 1.3 The buildings in the Council's ownership are in need of extensive repair and refurbishment. In particular the condition of the external facing brickwork, stonework and pointing is in particularly poor condition. Their condition has been deteriorating over a long period and previous attempts at repair have been of a poor quality using inappropriate materials for the historic nature of the buildings. If these defects to the

external fabric of the buildings are not remedied then further damage to the structures will result. As the buildings are listed the works are of a specialist nature and therefore particularly expensive. In order to inform decisions about the future of the Council's properties a specialist report into the condition and options was commissioned during 2014 from Faithorn Farrell Timms.

- 1.4 The high cost of maintaining these unique buildings means that they are not well suited to the Council's social housing stock and cannot be easily maintained as part of routine planned maintenance programmes. In addition, the Government has signalled its intention to require Councils to dispose of high value stock to fund the right to buy for housing association tenants. Although it is not certain that these homes would fall into this category at this stage, it is an appropriate moment to consider their future ownership and management.
- 1.5 This report recommends the piecemeal disposal of the properties, as they become vacant, and the subsequent disposal of the Council's freehold interest in the associated land.

2.0 The Current Situation

- 2.1 The report from consultants, Faithorn Farrell Timms confirmed that there are significant repair issues that need to be addressed. They included in their report an estimate of the costs of these works, as follows:
 - i. Immediate essential repairs to the fabric of the buildings; estimated at £740,000 plus professional fees of £59,200 (8%), totalling £799,200.
 - ii. The full cost of repair to the fabric of the buildings over the 30 year life of the HRA Business Plan (plan period) is estimated at £1,060,785 plus professional fees of £84,863 (8%), totalling £1,145,648.

It is important to note that these costs do not include any internal decent homes work such as Kitchen and bathroom replacements, central heating upgrades or thermal insulation works. Further costs would therefore also be incurred to bring the internal condition of these homes up to the decent homes standard, in line with the remainder of the Council's housing stock. The costs also exclude any works to the communal areas and boundary walls, which are included within the Council's freehold.

- 2.2 The council is currently responsible for meeting all of these costs. However the leasehold owner is required to make reasonable and proportionate contribution to costs of maintaining the structure and common areas and is fully responsible for the internal condition of this dwelling.
- 2.3 The report also considers the potential option of disposal of the dwellings and estimates the value of the properties, if they were sold individually with vacant possession in their current condition, at £2m. As an alternative, they estimate the value of a disposal of the entire freehold as a single entity at £1.6m, again in current condition and with vacant possession.
- 2.4 Follow up discussions took place with the consultants to identify what value could potentially be achieved if the properties had the essential repairs carried out prior to sale. They estimated that the values would increase to £2.5m and £2.0m respectively.
- 2.5 The tenants of the council's properties were visited by officers from East Kent Housing in December 2014, to obtain a tenant profile and to incorporate their feedback into this report. Where tenants expressed an interest in moving, they have been offered assistance to do so, including payments of £1,200 to assist with the costs. The Council has no grounds available to apply for possession of the remaining

tenanted properties which are let with secure tenancies. Grounds for possession only exist where the landlord plans to demolish, reconstruct or redevelop the site, which is not the case in this instance. In addition the Council does not have the power to dispose of a tenanted dwelling where the disposal would result in the tenant becoming the tenant of a landlord that is not a local authority.

- 2.6 Over recent months 5 of the rented homes have become vacant. These homes have not been relet. One of the remaining Council tenants has submitted an application for the right-to-buy and this application is being processed in the prescribed way.
- 2.7 The leasehold owner has indicated his intention to sell his flat and has been actively marketing the property. He has offered the property for sale back to the Council, but this offer has been rejected.

3.0 Options

- 3.1 At this stage there are a number of options available. The main options are:
- i. Retain the 11 homes within the Council's housing stock: This option would require expenditure of approximately £1.2m over a 30 year period, together with further amounts for improvements including kitchens, bathrooms, heating, insulation and secondary double glazing. These additional costs are estimated at £300,000 immediately and a further £300,000 during the 30 year plan period. A total capital cost of £1.8m over 30 years. This expenditure would enable the vacant homes to be relet and ensure that the essential structural repairs were completed in keeping with the buildings' historic listed status. The projected gross rental income over the same period is £1.627m; this is before any allowances for bad debts, voids, responsive repairs and management costs. Rented homes are subject to the right-to-buy.
 - ii. Dispose of the individual dwellings in their current condition: The consultants' report estimates that the total value of the Council's assets would be £2m if sold individually with vacant possession. In addition, savings relating to the costs of work of £1.8m over the 30 year plan period would be realised. The loss of rent income following disposal is projected £1.627m over the same period; this is before any allowances for bad debts, voids, responsive repairs and management costs. Properties could only be sold as they became vacant following natural turnover and therefore some works would be required to those properties that are currently occupied.
 - iii. Although the consultants' report suggests that sale of the freehold of the entire site as a single entity is an option, the estimated valuation of £1.6m is again based on vacant possession. This option would only be possible if all homes were vacant. The Council would need to complete the most urgent structural repairs to safeguard the properties until a sale on this basis could proceed.
 - iv. Complete essential works prior to disposal of all properties. This option is not recommended as the estimated cost of the essential works totals £800,000 and the estimated uplift in value as a result is only £500,000.
- 3.2 Following consideration of the above options it is recommended that option ii is agreed. The reasons for this are as follows:
- Retention of the properties would incur costs in excess of the potential rental income over the 30 year plan period.
 - Completion of works prior to disposal would result in costs in excess of the estimated potential uplift in value.
 - Disposal of the whole site as a single entity, at an estimated value of £1.6m is not possible unless all of the properties were vacant. Essential works would be required to all properties to protect the fabric of the buildings until such time as vacant possession could be obtained in the future.

- The Government has signalled an intention to require councils to sell high value housing stock, and although it is not certain that these properties would fall into this category, disposal now would enable the Council to retain the receipts within its HRA without risk that some or all of the receipt is required to be returned to central government for redistribution.
- 3.3 The recommended option ii involves a number of specific actions as set out below:
- The immediate marketing of the 5 vacant properties in the Council's ownership in their current condition. It is proposed that the 4 currently vacant houses be sold as freehold, and that the currently vacant flat be sold as a leasehold.
 - The subsequent marketing and disposal of the remaining flats and houses as they become vacant, on the same basis.
 - The disposal of the Council's freehold interests in the flat blocks, communal grounds, boundary walls and paths, once all of the properties have been sold.
- 3.4 To facilitate these disposals in the most economically advantageous way, the Council will seek advice from a suitable local agent, with expertise in historic buildings.
- 3.5 This disposal strategy will require the council to complete some essential structural maintenance to the properties not included within the immediate tranche of disposals. This would ensure that the Council met its statutory obligations as a landlord and protected the value of its assets for future disposal.
- 3.6 Of the remaining 5 tenants, 2 tenants are actively seeking a move and sales could proceed in the same way as above, as soon as these homes become vacant. 1 tenant has submitted an application for the right-to-buy, which will progress through the statutory process in due course. The 2 remaining rented properties have tenants that either do not wish to move or have no current plans to move and it is recommended that structural maintenance is completed to these 2 properties. In addition, the Council will be responsible for the structural maintenance of the flats until such time as the freeholds are disposed of. It is therefore also proposed that structural maintenance is completed to these blocks.
- 3.7 This approach would therefore require essential structural repairs to be completed to the four flats and one house. The estimated cost of this more limited work is £300,000 plus professional fees of £24,000. Based upon the value advice received from Faithorn Farrell Timms the completion of these works would potentially increase the sales values of these units by around £200,000.
- 3.8 When disposing of its freehold interests in the flat blocks, communal grounds, boundary walls and paths the Council could work with residents to secure the long term maintenance of these areas through a management company. The existing freehold owners of the 7 sold houses are responsible for contributions to the communal grounds and pathways, but not the boundary wall and are also required to participate in any management company established for these areas. Similar provisions regarding the contribution to the maintenance of communal areas will be included in future sales. The residents of the block may choose to make an offer to acquire the freehold at this point if they wish.
- 3.9 As stated in 2.2 above, the leasehold owner is liable for a reasonable and proportionate contribution to the costs of these works. However the buildings have been in a poor and deteriorating condition over a prolonged period of time and the Council has not made any financial provision for the costs of the works. In the circumstances the Council may not be able to recover a full proportion of these costs from the leasehold owner. Therefore, it is proposed that the Council negotiate with

this owner with a view to recovering a reasonable proportion of these costs, taking into account all of the factors.

- 3.10 The cost of commissioning a local agent to assist with the sales is estimated to be between 1% and 2% of the sale proceeds. Additional costs for energy performance certificates will be incurred, estimated at £10,000. Revenue provision of £30,000 is required for this, and this cost can be offset against the proceeds of the sales.

4.0 Conclusion

- 4.1 This report has considered the range of potential options for the future of the Coastguard Cottages, Victoria Parade, Ramsgate. It concludes that the Council should seek to dispose of the properties on an individual basis as they become vacant. The specialist consultants report from Faithorn Farrell Timms indicates that this approach will potentially achieve the best value for the Council in the disposal.
- 4.2 Where properties are occupied by tenants and leaseholders the report concludes that the Council should complete essential structural repairs to protect the buildings and the homes of the Council's tenants and leaseholders. Disposal of the tenanted properties could then proceed at a future date when they become vacant. In addition the disposal of the Council's freehold interested in the two small blocks of flats and the communal grounds could also proceed at the appropriate time in the future.
- 4.3 This approach will enable the early disposal of vacant dwellings, protect the interests of the Council's tenants and help to secure the condition of the buildings for the future. The proposed disposal will also generate a receipt for the Council's HRA.

5.0 Corporate Implications

5.1 Financial and VAT

- 5.1.1 This report recommends a strategy for disposal of the Council's interests in the Coastguard Cottages. The table below summarises the projected impact of the proposed disposal on the HRA Business Plan.

Item	Capital Impact (£000's)	Revenue Impact (£000's)
Estimated disposal value (Capital receipt)	-2,000	
Savings from Capital works not required	-1,800	
Cost of works to properties 1A, 1B, 12, 14 and 15	324	
Enhanced value following works: units 1A, 12, 14 and 15	-200	
Marketing costs and energy performance certificates	30	
Loss of rental income over 30 years		1,627
Savings from 2% bad debt allowances not required		-33
Savings from 2% void allowances not required		-33
Savings from responsive repairs not required (£406 per property per year)		-126
Total Impact	-3,646	1,435

- 5.1.2 The table shows that the proposed disposal would have an overall positive impact on the HRA business plan of more than £2.2m. The revenue implications resulting from the loss of rental income can be mitigated through the lifetime of the business plan by reducing the revenue contributions to the capital programme by a corresponding amount.
- 5.1.3 No allowance has been shown on the table for the recharging of capital works to the leaseholder. This is because it is not certain at this stage how much of this cost could be recovered. Officers will seek to negotiate a fair and proportionate contribution to the costs of these works.
- 5.1.4 The table shows the £30,000 costs of marketing and energy performance certificates offset against capital receipts. This is permitted by virtue of Regulation 23(e) of the Capital Finance Regulations (SI 2003/3146 as amended) which provides that an authority may use capital receipts “to meet the cost of or incidental to a disposal of an interest in housing land”.
- 5.1.5 Approval of a capital budget of £324,000 will be required to fund the necessary works to 5 properties. Resources are available within the HRA Major Repairs Reserve to meet these costs.

5.2 **Legal**

- 5.2.1 The Council has the power to dispose of vacant dwellings from the HRA at market value under the provisions section 32 of the Housing Act 1985, as set out in the General Housing Consents 2013. The general housing consents do not provide for the disposal of dwellings that are occupied by social housing tenants.
- 5.2.2 The Council has no grounds to seek possession of dwellings occupied by secure tenants for the purpose of disposing of the dwelling.
- 5.2.3 Work has been completed to investigate the terms of the previous freehold and leasehold right-to-buy sales in respect of liabilities to contribute to the costs of maintaining communal grounds.

5.3 **Corporate**

- 5.3.1 The proposed disposal will support the sustainability of the Councils HRA Business Plan and release additional resources for investment in existing and new HRA homes.

5.4 **Equity and Equalities**

- 5.4.1 A tenant profile has been completed and this identifies the individual circumstances of each family occupying Coastguard Cottages. Where tenants have expressed a preference to relocate elsewhere assistance has been provided, included £1,200 to assist with the costs of moving. Those tenants that have expressed a preference to remain are able to do so.
- 5.4.2 The properties do not have features that would make them particularly suited to the needs of people with protected characteristics, as set out within the public sector equality duty.

6.0 Recommendations

6.1 It is recommended that Cabinet:

- i. Agree the proposed disposal strategy set out in section 3.3 of this report, including the immediate marketing of the 5 vacant properties, and subsequent marketing of further properties as they become vacant and the Council's freehold interests flat blocks, communal grounds, boundary walls and paths.
- ii. Authorise the Director of Community Services to negotiate and agree terms and complete transfers for all disposals in relation to this site.
- iii. Agree to utilise up to £30,000 of the value of the receipts obtained to fund the costs of marketing and disposal.
- iv. Agree an HRA capital budget of £324,000 to fund essential works, to be vired from the HRA Major Repairs Reserve.
- v. Authorise the Director of Community Services to negotiate a reasonable and proportionate contribution to the costs of the work from the leaseholder owner, taking into account all of the circumstances and take necessary steps to recover these amounts.
- vi. Agree that the receipts from the sales should be used to support the Council's HRA activities.

7.0 Decision Making Process

7.1 This is a non-key decision subject to call in.

Future Meeting if applicable:	Date:
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Reporting to:	<i>Interim Director of Community Services</i>

Annex List

Annex 1	Plan of Coastguard Cottages
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Corporate Consultation Undertaken

Finance	<i>Tim Willis, Director of Corporate Resources & S151 Officer</i>
Legal	<i>Tim Howes, Interim Head of Legal and Democratic Services & Monitoring Officer</i>