

This Report will be made public on 23 January 2025

Report Number **C/23/76**

To: Cabinet
Date: 31 January 2024
Status: Key decision
Responsible Officer: Gill Butler, Chief Officer Housing
Andy Blaszkwicz, Director Housing & Operations

Cabinet Member: Councillor Shoob, Cabinet Member for Housing and Homelessness

SUBJECT: Disposal - Hay House, Hythe – Housing Revenue Account (HRA) Grade 2 Listed Asset

SUMMARY: This report informs cabinet of the current position regarding HRA Asset - grade 2 listed property, Hay House, Sir John Moore Avenue, Hythe, Kent, CT21 5DF - including a recommended option to dispose of the property.

REASONS FOR RECOMMENDATIONS:

Due to the age and condition of the building, and following an extensive viability study, a decision needs to be made regarding the disposal or refurbishment of the building to bring it up to modern and energy efficient standards.

RECOMMENDATIONS:

1. To receive and note report C/23/76.
2. To approve the recommendation that the council disposes of Hay House, with the funds generated used to supplement the HRA capital budget to provide new, affordable energy efficient homes.
3. To provide delegated authority to the Director of Housing & Operations to market the property and accept the best offer for the Housing Revenue Account.

1. Background

- 1.1. **The history of Hay House** – (Paddock House - the Commandant's House). Built in 1804 and subsequently bought in 1809 as the residence for the Commandant of the Royal Staff Corps and Director of the Royal Military Canal, Lt. Col. John Brown. The house was adjacent to Hythe barracks; built circa 1808-1810 to provide a new depot for the Royal Staff Corps, which was previously stationed at Chatham. Lt. Col. (later Major-General) John Brown (1756 - 1816) was a military engineer and talented watercolour artist. It was he who had, in 1804, conceived the idea of the Royal Military Canal as the principal element of the coastal defense of Kent and Sussex against the threat of French invasion. Under Brown's direction the Royal Staff Corps were responsible for the construction of the canal, which was completed in 1809. As Commandant of the Staff Corps, and Director of the newly completed canal, Brown took up residence in the house in 1809, and lived there until his death in 1816. The Royal Staff Corps was disbanded in 1837. The barracks remained in army use until 1969, shortly after which the barracks were demolished.
- 1.2. Shepway District Council took ownership of the land around the old barracks, (Sir John Moore Avenue), in 1976. At which time the property was renamed to Hay House and divided into 6 flats for social housing use. The rest of the site at Sir John Moore Avenue was developed and now consists of a variety of social housing, private housing, and a large supermarket.
- 1.3. Hay House obtained its grade 2 listed status on the 23rd of October 1974 under listing entry number 1068931. The reason for listing is as follows: *“Historic interest: The house is the only surviving part of the Napoleonic period Hythe Barracks complex, which was home to the Royal Staff Corps, who oversaw the construction of the Royal Military Canal; the principal element of the coastal defense of Kent and Sussex against the threat of French invasion. Architectural interest: the house is a handsome example of early 19th Century domestic architecture.”*
- 1.4. Due to the ongoing expense and difficulty in maintaining such a listed property over the years it has fallen into a state of disrepair. The earliest report on current file is from 2017, which highlights a number of areas of concern including rotting windows and cracks in the brickwork and masonry. However, earlier photographs of the property suggest there have been issues at the property before this date.

2. Property Condition (photos attached at appendix 1)

- 2.1. The 6 flats within Hay House (4 x 2-Bed and 2 x 1-Bed) are all currently tenanted, although recently when one of the ground floor 1-Beds became vacant we let this on a 6-month temporary accommodation short let to enable us to make decisions about the future of the building. There is a basement area which has not been developed and seems to have been used as a dumping ground, which is periodically cleared by the council. The flats, to a large extent are the same as when they were converted in the mid 1970's, with many of the internal features retained from that period.

Although they have been maintained and any health & safety repairs completed, little or no investment has been made in upgrading the properties and as a result heritage features such as the wooden sash windows and other period features, are showing their age.

- 2.2. Although the property is in a certain state of disrepair, the EPC ratings for each of the properties is of a reasonable standard. However, they are currently not on the council housing service's decarbonisation programme to bring all up to EPC C by 2030 and work towards NZC ready by 2050. Any such work needed in this respect has not been factored into the indicative costings.

Address	Energy rating	Valid until
Flat 1 Hay House	D	25 March 2024
Flat 2, Hay House	C	27 November 2031
Flat 3, Hay House	C	27 November 2031
Flat 4, Hay House	D	27 November 2031
Flat 5, Hay House	D	27 November 2031
Flat 6, Hay House	D	22 April 2032


- 2.3. A property condition report was undertaken by Design Quarter UK (Ltd). The report dated 21st January 2020, describes the condition of the building in detail by element. The indicative cost of remedial works then, (excluding fees and other expenses), was £771,345. Allowing for inflation and the possibility of other works required, the total indicative cost of remedial works is estimated to currently be over £1,200,000.00.
- 2.4. Due to the urgent nature of some of the works that have been identified an estimated £20-30,000.00 will be needed to be spent as a temporary measure to ensure the property is weathertight over the coming months and until a longer-term solution to the issues has been identified.


3. Development potential


- 3.1. There is a small area within the footprint of the site where the carpark and part of the garden area is for the property. This area was highlighted as having development potential.
- 3.2. The F&HDC development team have considered the development potential for this site, however due to its listed status and the topography of the site, it would not be a viable prospect for the council to redevelop at this time.
- 3.3. Any costs associated with the redevelopment of this area would be in addition to the estimated £1.2 million refurbishment works required to the main building.
- 3.4. Further enquires would need to be made with the relevant departments including the appropriate consents from Historic England.
- 3.5. If development consents were to be approved, the properties' value would increase and become more attractive to developers.

4. Options considered.

- 4.1. Due to the cost of the remedial works and subsequent continual cost of maintaining a grade 2 listed building, it is not economically viable to continue using the building for social housing. The strain on the HRA finances for such a small number of properties is disproportionate against property need.
- 4.2. A financial appraisal undertaken by the council's development team indicates the site not to be financially viable for refurbishment and continued use as social housing.

Capital Costs		
	Land Acquisition	£ -
	Works	£ 771,344
	On-Costs (Excl Interest / D&A)	£ 355,634
	Development Allowances	£ 23,140
	Capitalised Interest	£ 2,369
	Total Scheme Costs	£ 1,152,487

Capital Funding		
	Grant	£ -
	Other Public Subsidy	£ -
	Other Funding	£ -
	Sales Receipts	£ -
	Ground Rent	£ -
	Private Finance Required	£ 1,152,487
	Total Capital Funding	£ 1,152,487

Scheme Metrics		
	Land Cost (pu)	£ -
	Build Cost (£/sqm)	£ 2,019
	On-costs (%of TSC)	33.07%
	GDV (£/sqft - Resi)	£ 227
	GDV (pu - Resi)	£ 155,833

Performance		
NPV (£)	-£ 433,787	FAIL
IRR (%)	1.88%	FAIL
Payback Yr (Undiscounted)	34	FAIL
Cost to Value (%)	123.26%	FAIL
Loan Repayment Yr (Flexible Terms) (Yr)	83	FAIL
Yr 1 Net Yield (%)	2%	
Present Value of Cashflow	£ 718,701	

The metrics shown in the above table all fail the viability assessment for social rents.

- 4.3. An assessment was also undertaken to indicate how desirable the property would be for a developer to be able to undertake works and let the flats at the current market rate.

PERFORMANCE METRICS		
NPV (£)	£ 80,946	PASS
IRR (%)	5.89%	PASS
Payback Yr (Undiscounted)	19	PASS
Cost to Value (%)	123.26%	FAIL
Loan Repayment Yr (Flexible Terms) (Yr)	30	PASS
Yr 1 Net Yield (%)	4%	
Present Value of Cashflow	£ 1,233,433	

The metrics shown in the above table show a more positive viability for true market rented lets.

- 4.4. Feedback from the options appraisal confirmed that as a social/ affordable rent asset, the metrics are all negative without addressing the cost of refurbishment as detailed within the report by Design Quarter. From practical experience the refurbishment costs are likely to be higher than previously estimated, which may make the property less attractive to a market rent developer, but definitely renders the property non-viable for a social / affordable rent developer.
- 4.5. In terms of the decarbonisation, if Hay House remains as independent flats, it is likely to require:
- External wall insulation and double glazing and these are the 2 most expensive insulation measures - G2 planning;
 - Draught-proofing and air tightness testing and;
 - Some form of heat pump or energy efficient electric heating.

Government contributions toward the cost of measures could potentially be sourced from any future wave of the Social Housing Decarbonisation Fund which the council would have to match fund at a 50:50 ratio. However, such works to grade 2 listed properties would need to have Listed Building Consent.

- 4.6. Accordingly, with the options appraisal, there are three main options to consider:
- **Disposal of the property on the open market is the recommended option:**
 - A RICS Valuation Report by Motis Estates (attached at appendix 2) gives a valuation of the building and site as at 31st March 2023, based on current condition, an approx. market value of £841,500.00.
 - A similar property in the local area with development potential sold for £825,000.00 earlier this year. (Please note, there has been a small reduction in the cost of properties since the valuation was undertaken).

- **Re-purposing** - The council take the property from the HRA and use it for another purpose. The property would still require works, but the scale of the works would be less due to the change of usage. If Hay House were to change use to something community related (i.e., non-residential), there may be support funds available depending on use, however any small support funds are not likely to cover the full refurbishment / decarbonisation cost for the building.
 - **Disposal of the property directly to a local charity/trust** – perhaps to use as a local attraction/ visitor centre related to its history.
- 4.7. Considering the council’s current financial situation and also the current economic climate covering charities and other local trusts and charitable organisations, neither option relating to the wider council taking ownership or disposing of the property to a charity trust may be viable to pursue. The council’s planning policy & economic development team has stated that given the building’s location, state of repair, and state of the council’s finances, it would be unlikely the council general fund would want to acquire this building for another use at this time.
- 4.8. Any disposal of the property for a cash sum would give the HRA additional financial resources for development or other areas of growth or refurbishment. This would allow the council to develop additional sustainable council housing. However, Historic England’s preferred approach stated on their website would be to retain the cultural aspect of the property through either a change of usage or disposal to an organisation to who will maintain its historic nature. This would need to be stated in any legal documents pertaining to sale.

5. Cost of decanting tenants and decanting timeframe

- 5.1. Decanting the residents will be a vital part of the project. Their needs, expectations, and other requirements will need to be considered including in any plans for the building.
- 5.2. Three of the tenants have lived at Hay House for over 10 years, of which 1 has been there over 20 years. As at May 2023, none of the tenants are registered for rehousing and have not expressed any wish to move. This is likely to make finding suitable alternative housing for them all more difficult, and slower. There are 317 1&2 Bed council homes (excluding Independent Living) in Hythe area, so if the residents want to stay in the same area, the opportunities to move will be limited.
- 5.3. Below is an indicative cost table of decanting the residents:

Flat	size	Tenancy start date	Length of tenancy	Age of tenant	Home Loss ¹	Removals ²	expenses ³	Additional void costs ⁴	total
1	2	14/3/22	1	56	£8,100	£750	£500	£1200	£10,550
2	2	22/9/97	25	53	£8,100	£750	£500	£1200	£10,550
3	1	Being used as TA at present							
4	2	1/7/15	7	49	£8,100	£750	£500	£1200	£10,550
5	2	27/2/12	11	37	£8,100	£750	£500	£1200	£10,550
6	1	3/3/08	15	36	£8,100	£750	£500	£1200	£10,550

NB: it is assumed at this stage that every household will require a property of the same size. The total cost of decanting the residents is estimated to be £52,750.00. This would be taken out of any sale proceeds. Of the 6 flats at Hay House, one is already vacant being used as temporary accommodation, therefore decant costs would not apply to this household.

- 5.4. Subject to final approval to dispose of the property, the Neighbourhood Management team have had initial discussions with all the affected tenants. These discussions have suggested that whilst none of the permanent tenants are especially keen to move, they do understand the situation the council are in, and they understand that they may need to move. It will be important to continue to discuss any concerns or questions they may have and explain the decant process as time progresses.
- 5.5. We are now aware of the household compositions and rehousing requirements of all the households affected, however this may change over time. Subject to this, we would expect the decant process to take around 6 – 9 months to complete. It is difficult to be precise about this because it is subject to suitable alternative properties becoming available. However, we have started to identify some potential alternative homes in Hythe for some of the residents and we will be able to begin having more formal discussions with the residents about moving as soon as Cabinet have made their decision.
- 5.6. As 'permanent decants' (i.e., the tenants will not have the right to return to their home at Hay House), the tenants will be entitled to full reimbursement of all costs associated with moving, plus a statutory Home Loss payment (subject to eligibility). This payment is currently £8,100 but is reviewed annually.
- 5.7. Tenants will be given high priority within the housing register and will be able to bid for any advertised properties, but it is likely that suitable properties will be identified for Hay House tenants before they are advertised generally, and they will be given first offers. The housing team will be on hand throughout to assist with each tenant's rehoming needs.

¹ Amount to be revised upward in October 2024

² Based on current costs plus estimate for inflation increase

³ Refitting or replacing carpets, curtains etc., disconnections/reconnections, sundry expenses

⁴ Mainly for redecoration, to incentivise tenant to move

6. CONSULTATION

- 6.1 Early informal consultation with the residents at Hay House started week commencing 13th November 2023. This early consultation will help the residents better plan and prepare for all eventualities and determine their specific housing needs.
- 6.2 Local councillors have also been informed of the consultation with all affected residents.
- 6.3 The consultation will ensure that a positive outcome is attained for the residents and that any upheaval will be kept at a minimum.

7. RISK MANAGEMENT ISSUES

- 7.1 A summary of the perceived risks follows:

Perceived risk	Seriousness	Likelihood	Preventative action
Increased cost of refurbishment works to grade 2 listed building	High	High	Disposal of property removes any increased cost risks.
Difficulty locating suitable homes for residents	High	Low	Lessons learned through Ross House and 118 Cheriton Road, have led to an improved decant process and early consultation.
Difficulty in selling the asset considering the current housing market.	Med	Low	The property market has been very slow during 2023/24. However, it is expected to stabilise and improve over the course of 2024/25

8. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

- 8.1 **Legal Officer's Comments (NM)** - There are no legal implications arising directly from this report. However, if the Council decides to dispose of the property, then it must comply with s123 of the Local Government Act 1972 to ensure that it does not sell the land for less than the best consideration reasonably obtainable (unless it obtains the consent of the Secretary of State).
- 8.2 **Resources (GC)** – There are no direct HR implications arising from this report.

- 8.3 **Finance Officer's Comments (LW)** - The high-level financial implications are outlined in the main body of the report.
- 8.4 **Diversities and Equalities Implications (RP)** - There are no equality and diversity implications directly arising from this report. A consultation was launched on 13th November 2023 to help the current residents of Hay House better plan and prepare for all eventualities and determine their specific housing needs. EIA will be completed.
- 8.5 **Climate Change Implications (OF)** - No implications arising directly from this report. If the council decides to dispose of the property, the climate change implications will depend on any new use that the building and site is put to. If the building is refurbished or redeveloped, any proposals will need to meet existing building regulations and local plan policies regarding sustainability and energy efficiency, or any new local plan policies or design code requirements that may be in force at the time applications for listed building consent and/or planning permission are determined.

9. CONTACT OFFICERS AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer/s prior to the meeting:

Gill Butler, Chief Officer Housing
Gill.butler@folkestone-hythe.gov.uk

Mick Hale, Assets Lead Specialist
Mick.hale@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Appendices:
Appendix 1:

1: Photos of property condition and site location.









2: Property location

