

Item No. 17.	Classification: Open	Date: 16 July 2013	Meeting Name: Cabinet
Report title:		East Dulwich Estate – Badminton House Options Appraisal	
Ward(s) or groups affected:		South Camberwell Ward	
Cabinet Member:		Councillor Ian Wingfield, Deputy Leader and Housing Management and Councillor Fiona Colley, Cabinet Member for Regeneration and Corporate Strategy	

FOREWORD – COUNCILLOR IAN WINGFIELD, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING MANAGEMENT AND COUNCILLOR FIONA COLLEY, CABINET MEMBER FOR REGENERATION AND CORPORATE STRATEGY

The regeneration of East Dulwich Estate has been ongoing for a considerable time and the scheme has faced a number of adjustments due to changing circumstances. The construction of new council homes is expected to commence early 2014; works to the first phase of the drying room conversions is imminent and the estate wide environmental and drainage works are expected to start in Autumn 2013. A number of elements of the regeneration programme have been achieved, with decisions on the way forward for other elements now agreed.

The final element of the scheme is for cabinet to make a decision on the retention and refurbishment of Badminton House, a relatively small block that houses a number of family sized units. Residents of the estate and ward councillors are keen for the council to retain and refurbish the block. Retaining the block returns large family sized homes to council stock and identifying a small number of units for private sale generates a capital receipt that can be offset against the refurbishment costs.

We would like to thank the East Dulwich Estate Regeneration Project Team for all their dedication and hard work to the success of this scheme and all residents of the estate for their patience in what has been a very lengthy process. The regeneration of East Dulwich Estate has been ongoing for a considerable time and the scheme has faced a number of adjustments due to changing circumstances. The construction of new council homes is expected to commence early 2014; works to the first phase of the drying room conversions is imminent and the estate wide environmental and drainage works are expected to start in Autumn 2013. A number of elements of the regeneration programme have been achieved, with decisions on the way forward for other elements now agreed.

The final element of the scheme is for cabinet to make a decision on the retention and refurbishment of Badminton House, a relatively small block that houses a number of family sized units. Residents of the estate and ward councillors are keen for the council to retain and refurbish the block. Retaining the block returns large family sized homes to council stock and identifying a small number of units for private sale generates a capital receipt that can be offset against the refurbishment costs.

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RECOMMENDATIONS

That the cabinet:

1. Notes the consideration of the options for refurbishing and retaining Badminton House.
2. Notes the financial implications of the three options.
3. Approves the revised strategy of retention for Badminton House, and agrees option 2, to refurbish and relet with private sale of 2 x 2 beds and the drying room conversion, described in paragraph 14, as the way forward for the block.

BACKGROUND INFORMATION

4. The East Dulwich Estate was first identified for regeneration in 1997 and formed part of the Southwark Estates Initiatives (SEI) originally agreed by Housing Committee on 15 December 1998. The scheme initially proposed redevelopment and refurbishment to the estate of 753 properties, which is arranged in 24 blocks. The scheme has evolved over time as circumstances have changed. Significant elements of the regeneration programme have been delivered; there are several elements still to complete for which arrangements have been agreed. The future of Badminton House is the last remaining issue to resolve in order to complete the regeneration of the estate.
5. Badminton House is located in a corner of the East Dulwich Estate at the junction of Quorn Road and Grove Vale. The block was built in 1934, and comprises eleven flats and two commercial units arranged over five floors. The block is comprised of 3 x 2 bed flats, 1 x 2 bed maisonette, 5 x 3 bed flats and 2 x 4 bed maisonettes. On the fourth floor there is a drying room which has potential for conversion into a 1 bed flat. The last household in the block moved out in May 2011 and the block was secured.
6. Badminton House was originally earmarked for refurbishment as part of the estate wide contract carried out by Durkan, but was omitted because the contract was overspending and reductions were needed. Also, the block had become largely empty, so its place in the overall scheme was re-evaluated. In 2011, three options were appraised:
 - Dispose
 - Refurbish and Retain
 - Refurbish, Retain and Dispose of 1 & 2 bed units.

The outcome of the appraisal was that the preferred option was to dispose of the block.

7. Following the options appraisal, cabinet made a decision in May 2011 to dispose of Badminton House. The council was required to seek consent from the Secretary of State for the Department of Communities and Local Government to approve any disposal and duly agreed to seek consent by decision of council

assembly in January 2012. Approval was then sought from the Secretary of State, which was granted in 2012. A preferred buyer was selected, following a marketing and tendering exercise in September 2011. Terms were agreed and a contract drawn up, during which time the preferred bidder submitted a planning application to change the entrance to the block and install a lift, which was granted consent. In December 2012, the preferred bidder unexpectedly backed out of the purchase and the council was left with two options: a) try to agree terms with the under bidder who was still interested or b) start the whole process again and seek a further cabinet decision. This matter was not resolved by the time the cabinet were considering the overall scheme report in March 2013. However, in the light of the information, the cabinet requested a further report to reconsider the sale of the block.

8. In March 2013, cabinet agreed a number of variations to the approach for delivering the remainder of the works across the estate. In response to objections raised by residents to the continued disposal of the block and in light of the new information about the Badminton House disposal, cabinet also made a decision that further options appraisal work should be carried out on the feasibility of retaining and refurbishing the block.

KEY ISSUES FOR CONSIDERATION

9. The March 2013 cabinet report reported the previously agreed finance plan for the scheme i.e. that the projected £30,917,049 cost to the council of the regeneration scheme were to be met from capital receipts, with £15,110,000 from off-estate resources and £14,273,950 from on-estate resources. The finance plan projected that £2.2m of the on-estate resources was to be met from the disposal of Badminton House.
10. Badminton House is currently in a poor state of repair. The residential part of the block has been vacant since May 2011 and there has been considerable damage to the property from rain penetration following metal theft on the roof. The block has also suffered from pigeon and vermin infestation. Obviously very little planned or routine maintenance has been undertaken for a number of years.
11. Following the cabinet decision to review options, council officers commissioned a cost feasibility report, attached as Appendix 2, to determine the costs involved in refurbishing the block. The report considered the following two refurbishment options to compare with the currently approved option of disposal:
 1. Full refurbishment and relet of all existing units as socially rented and the sale of a converted drying room.
 2. Refurbishment of the block with 9 x units for social rent and the sale of 2 x 2 bed units and the drying room conversion. This option would result in Badminton House broadly reflecting the tenure mix of the rest of the estate.
12. The works required to return the block to a lettable standard and meet the decent homes obligation will involve a 55 week extensive refurbishment programme.
13. Option 1, full refurbishment and relet with private sale of drying room conversion, would bring all existing 11 units back into council stock at a cost of approximately £1,586,323. This figure includes the cost of a 1 bed drying room conversion, along with environmental and drainage works to Badminton House which is in common with the works to the rest of the estate under the regeneration scheme. A capital receipt of approximately £175,000 from the sale of the drying room

conversion is anticipated. The revenue from rents has been estimated at £82,000 over 10 years.

14. Option 2, full refurbishment with private sale of 2 x 2 beds and drying room conversion, would bring 9 units back into council stock at a cost of approximately £1,652,823. As for option 1 above, this figure includes the cost of a 1 bed drying room conversion, along with the environmental and drainage works. A capital receipt of approximately £575,000 from the sale of 2 x 2 bed units and the drying room conversion is anticipated. The 10 year rental yield of the 9 units for relet has been estimated as £68,000.
15. The receipt anticipated from the disposal option was £2.2m. However, the Head of Property is confident that in the current climate the disposal could now achieve a receipt in excess of £2.5m.
16. When the decision was taken in May 2011 to dispose of the block, the scheme was under pressure to reduce costs and generate receipts to minimise its impact on the Housing Investment Programme, with its many competing priorities.
17. The refurbishment contract was projecting an overspend of £3.46m. A savings exercise and improved contract management was put in place to seek to control the overspend. Badminton House featured because of the estimated £481,000 cost to refurbish at the time. In the event, the overspend on the refurbishment programme was reduced to £1.36m, achieved in part by the omission of Badminton House from the contract. The option appraisal exercise led to the conclusion that disposal of Badminton House was the most appropriate course of action, partly because it was already empty and also because of the estimated disposal valuation of £2.2m. It should also be noted that the estimated cost to refurbish the block had been provided by the contractor as part of a tender exercise in 2006 for the estate wide refurbishment scheme. In addition, the block was in a better state of repair than now and did not include the drying room conversion or the environmental and drainage works and the cost was built up from estimated void and decent homes works.
18. The May 2011 cabinet decision to dispose of the block was taken within context of the pressure on resources of the Housing Investment Programme at the time and the significant overspend of the scheme as a whole. The costs outlined in paragraphs 13 and 14 are significantly more robust than the initial cost provided as part of the estate wide contract in 2010, despite the difficulties in carrying out a full visual inspection of the interior for health and safety reasons. For this reason, the current estimate includes a significant proportion of contingency. The financial summary of the options is set out in Appendix 1. The summary shows the relationship between estimated costs, capital receipts, and rental income.
19. Whilst a decision to refurbish and retain the block would result in a significant initial outlay, it compares relatively well with the cost of new build provision, and there is an additional benefit of returning large family homes to the stock to assist with meeting housing need. Moreover, the private sale of a fixed number of units would generate some capital receipt and would also contribute to the objective of enabling a more mixed and balanced community. For this reason, option 2 is recommended as the appropriate way forward.
20. Retaining the block will also keep the two commercial units in council ownership – ensuring a greater degree of control over the types of commercial use as both landlord and licensing authority.

Consultation

21. The East Dulwich Estate Regeneration Project Team (EDERPT) has been central to the delivery of the regeneration scheme, and has met regularly throughout the life of the scheme, currently on a monthly basis. The group has therefore been involved as the various changes of circumstances have occurred. EDERPT were first consulted on the future of Badminton House in 2011 prior to the initial options appraisal. Although they were not in favour of the disposal option, their views were taken into account when the decision to dispose of the block was made.
22. Regular meetings with EDEPRT took place in the build up to the March 2013 report where council officers went back to cabinet with an update on the overall scheme to seek approval on variations to the delivery approach. Whilst Badminton House did not form part of the March 2013 report as it was going through the disposal process, a number of residents from EDERPT spoke in favour of refurbishing and retaining the block as opposed its continued disposal.
23. The retention of the block has wide community support. It aligns with residents' priorities and aspirations for the estate, whilst tackling issues of antisocial behaviour associated with the block.

Community impact assessment

24. The refurbishment and retention of Badminton House will bring back between nine and eleven homes into council stock, of which seven are family size units which will help meet the housing need in the borough. Residents of the estate are keen for the council to retain the block and use it to house families in need.
25. By replicating the tenure split on the estate we avoid a mono tenure block which is compliant with our mixed community policy and aspirations.
26. Bringing homes back into use would be beneficial and would also minimise any form of antisocial behaviour associated with an empty residential block.
27. There is also the added benefit that the council will have control over the refurbishment works bearing in mind there are tenanted commercial units situated within the block and the close proximity of a neighbouring block.
28. The social benefit of retaining large family housing can be regarded as outweighing the capital gain to the Housing Investment Programme from the sale of the entire block. Capital receipt would still be generated from the sale of 3 x private units.
29. The decision on the future of Badminton House will be the final phase in completing the East Dulwich Estate regeneration scheme, which has been ongoing for a considerable amount of time.

Financial implications

30. The cost of following option 2 of a full refurbishment and re-let with the sale of 2 x 2 beds and drying room conversion will incur a total cost of approximately £1.65m. The sale from the 2 x 2 bedrooms and drying rooms is expected to generate capital receipts of approximately £575k and therefore the net cost of

this proposal is expected to be £1.07m. However, it should be noted that in addition to this cost, the council will not generate the £2.2m capital receipts initially estimated within the East Dulwich regeneration programme from the disposal of Badminton House.

31. Current estimates indicate that this additional cost can be contained within the overall Housing Investment Programme due to the additional capital receipts that may be triggered by the increased discounts available to Right to Buy applicants. However, the Housing Investment Programme will need to be updated to take account of the revised cost and reduced capital receipts from this proposal.
32. The proposal will also generate annual rent income to the Housing Revenue Account which is expected to achieve a total income of £68k after 10 years.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Legal Services

33. There are no particular legal implications to bring to members attention at this time.

Strategic Director of Finance and Corporate Services (FC13/042)

34. This report is requesting cabinet to note the options for Badminton House and approve the revised strategy for full refurbishment and re-let with private sale of 2 x 2 beds and drying room conversion.
35. It is noted that the cost of refurbishment is £1.65m and will generate capital receipts of approximately £575k, but this proposal will reduce the capital receipts of £2.2m initially anticipated from the sale of Badminton House.
36. It is also noted that current estimates indicate that this cost can be contained within the overall Housing Investment Programme (HIP) but the programme needs to be updated to take account of the revised costs and resources available.
37. The proposal is also expected to generate additional rent income which will need to be incorporated within the annual revenue budgets within the Housing Revenue Accounts.

BACKGROUND PAPERS

Background Papers	Held At	Contact
East Dulwich Estate Regeneration Scheme Update and Proposals for Revision 31 May 2011	http://moderngov.southwark.gov.uk/documents/s19489/Report%20East%20Dulwich%20Estate%20Regeneration%20Scheme%20Update%20and%20Proposals%20for%20Revision.pdf http://moderngov.southwark.gov.uk/documents/s1949	Diana Hall 020 7525 7724

Background Papers	Held At	Contact
	0/Appendix%201%20East%20Dulwich%20Estate%20Regeneration%20Scheme%20Update%20and%20Proposals%20for%20Revision.pdf	
East Dulwich Estate Regeneration Scheme & Scheme Finance Update 19 March 2013	http://moderngov.southwark.gov.uk/documents/s36276/Report%20East%20Dulwich%20Estate%20Regeneration%20Scheme%20and%20Scheme%20Finance%20Update.pdf http://moderngov.southwark.gov.uk/documents/s36277/Appendix%201%20Scheme%20finance.pdf	Diana Hall 020 7525 7724

APPENDICES

Appendix	Title
Appendix 1	Badminton House Cash Flow
Appendix 2	Badminton House Feasibility Report

AUDIT TRAIL

Cabinet Member	Councillor Ian Wingfield, Deputy Leader and Housing Management and Councillor Fiona Colley, Cabinet Member for Regeneration and Corporate Strategy	
Lead Officer	Eleanor Kelly, Chief Executive	
Report Author	Diana Hall, Project Coordinator, Estate Regeneration Team	
Version	Final	
Dated	4 July 2013	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Property	Yes	Yes
Cabinet Members	Yes	
Date final report sent to Constitutional Team	4 July 2013	