

Item No. 7.	Classification: Open	Date: 31 May 2011	Meeting Name: Cabinet
Report title:		East Dulwich Estate Regeneration Scheme Update and Proposals for Revision	
Ward(s) or groups affected:		South Camberwell Ward	
Cabinet Member:		Councillor Ian Wingfield, Deputy Leader and Housing Management	

FOREWORD – COUNCILLOR IAN WINGFIELD, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING MANAGEMENT

The regeneration of the East Dulwich Estate has been substantially achieved; the refurbishment contract has finished and the new Albrighton Centre has been completed. The scheme is wholly funded by capital receipts, and there have been frustrations in generating receipts because of development market difficulties that have been well documented. This is true both for receipts generation on the estate and also off-estate.

It is recommended that some changes of approach are adopted. Of these, the most difficult decision facing the Cabinet is the disposal of Badminton House, particularly with the loss of family size homes that it entails. However, the alternative of seeking to refurbish the block would generate further substantial costs to the scheme, at a time when the focus has to be on recovering expenditure made on the estate for the benefit of other residents of the borough.

RECOMMENDATIONS

That the Cabinet:

1. Notes the progress on the East Dulwich Estate regeneration scheme, and the need to amend elements of the 2005 Executive decision in the light of changed circumstances, to reimburse the Housing Investment Programme for expenditure already made on the scheme.
2. Agrees in principle to a) the disposal of Badminton House, including the commercial interests, to a third party, and b) agree to consider detailed terms at a later date.
3. Agrees in principle a) to the disposal of the Pytchley Road site as a separate entity without planning consent and b) agree to consider detailed terms at a later date.
4. Approves the marketing and management strategy of the void sales.
5. Agrees the inclusion of Whaddon House in the Hidden Homes programme.
6. Agrees an alternative approach to the conversion of the drying rooms as outlined at paragraph 24.

7. Agrees an alternative approach to the new build proposals as outlined at paragraph 26 to 29.
8. Notes that the precise terms of disposal of any of the sites shall be subject to further Cabinet approval where necessary.

BACKGROUND INFORMATION

9. The East Dulwich Estate (which is held for housing purposes) was first identified for regeneration in 1997 and formed part of the Southwark Estates Initiatives (SEI), agreed by Housing Committee on 15 December 1998. The scheme proposed redevelopment and refurbishment to the estate of 753 properties, in 24 blocks. Following a review, the Executive agreed a new approach to the regeneration programme in April 2005, based on:
 - Full internal refurbishment of tenanted dwellings;
 - Refurbishment of void properties for re-let, shared ownership and private sale;
 - Conversion of unused drying/laundry rooms on ground and top floors for private sale;
 - Sale of land and development on the open sites, formerly residential blocks, at Gatebeck House and Southdown House and the vacant block located at 1-11 Pytchley Road for development to Durkan Ltd. in partnership with Hexagon Housing Association;
 - Environmental works and courtyard improvements;
 - Redevelopment of Albrighton Hall.
10. The scheme is based on the SEI principle of self financing and Executive originally approved expenditure of £25m with indicative costs of £26.53m (£25.33m for the refurbishment element and a further allowance of £1.2m for the provision of community facilities). Resources for the scheme were to be generated from ring-fenced disposals outside the estate totalling £15.11m with a further £10.32m being generated through disposals from the estate itself consisting of 3 parcels of land, 34 voids and 32 drying room conversions. The 34 voids were to exclude units that were 3-bed or larger and that were on the lower floors (ground, first and second floors).
11. A large proportion of the scheme has been delivered, but variations of approach are required, particularly to those parts of the scheme that whilst delivering regeneration in their own right, also crucially provide funding to reimburse the housing investment programme for expenditure already made.

KEY ISSUES FOR CONSIDERATION

12. The refurbishment contract was let to Durkan Ltd and started on site in January 2007 with a projected 3.5 year programme. By early 2009, cost overruns resulted in a full financial review of the scheme being carried out by the Council and Franklin and Andrews, cost consultants. The review projected a final account that was £5m over the contract sum, bringing the scheme costs to approximately £30m.

13. The Albrighton Centre contract was also let to Durkan Ltd. at a sum of £2.1m. Works started on site in March 2010 with a projected completion date of December 2010. In the event, works overran with practical completion being achieved in March 2011.
14. The 2005 Executive decision also provided for Durkan to take the development role, and generate receipts for the 3 new build sites. By the time that initial negotiations took place, the downturn in the property market rendered a revised offer from Durkan as unacceptable in terms of capital receipts, and it was clear that there was no sense in pursuing disposal of the sites to other developers at that time.
15. Design work on the new build sites and consultation with the East Dulwich Estate Regeneration Project Team (EDERPT) has however continued. Southwark Planning have advised that all elements of the scheme that require planning consent, including the new build sites, the dead space conversions, and general environmental works should form part of a single application so that the relative impacts of each element on each other could be taken into account.
16. The refurbishment programme, which included works to the voids-for-sale, reached practical completion stage in August 2010 and the redevelopment of the Albrighton Hall completed in March 2011.
17. The review of the refurbishment contract coincided with the introduction of new supervision arrangements, and concluded that a number of variations to the contract were needed. These included approval of further capital resources and reductions to the scheme content. Permission to continue was agreed by Gateway 3 report in July 2010. To manage the overspend, the following major elements were omitted and need to be carried out under a separate programme:

Omissions from the refurbishment programme

18. **Environmental and drainage works:** Budgeted at £1.5m, these were omitted from the refurbishment programme. However, the works are essential to the regeneration of the estate as it includes a parking strategy and improved amenities. Their completion is also essential to achieving the capital receipt values from the void and land sales. Therefore, proposals will be submitted for planning consent in June 2011, with a view to works starting in the 2011/12 programme year.
19. **The clinic located at Whaddon House:** The clinic on the ground floor of Whaddon House became vacant during the refurbishment programme. Given the constraints to the scheme budget, rather than leave the facility redundant, the property has been included in the Hidden Homes programme and is due to be converted into 2 x 2 bed residential units for rental, subject to planning approval, and using a separate funding stream.
20. **Badminton House:** The block has 11 residential units with 3 commercial units on the ground floor, and was omitted from the Durkan refurbishment contract, because it was late in the programme, and had a particularly high unit cost, at £35,000. Moreover, only one unit within the block was tenanted as all previous tenants were rehoused in 2009. The last remaining tenant was rehoused on 17 May 2011.

21. Taking these reductions into account, the total expenditure so far is £26,219,673 which has been spent on the refurbishment programme with £3,618,291 still required to fund the completion of Albrighton Hall (£2.1m) and undertake the environmental and drainage works (£1.5m).

Receipt Generation

22. The projected £30,917,049 costs of the scheme (outlined in Appendix 1) to the council were to be met from capital receipts, with £15,110,000 from off-estate resources and £9,890,000 on-estate. The increased expenditure approved in July 2010 was expected to be met from estate disposals, so the on-estate projections changed to £14,872,000; with £1.93m to be raised from the sale of 24 drying room conversions; £8.76m from the sale of now 50 voids and £2.18m is to be raised from the land sale of the three new build sites.
23. To date receipts of £9.71m have been achieved off-site (with £4.05m from Wooddene and £1.35m from Coopers Road yet to be achieved) and £1.4m has been raised from on estate voids disposal.

Conversions

24. The number of possible conversions has decreased due to the location of services in and around the rooms. Initially there was scope for conversion for 32 drying rooms, which decreased to 24 because of tank works and may now reduce even further due to revised space standards resulting in a number of the rooms no longer being compliant. Following a recent survey, 10 of the rooms have services that do not require relocation, but 14 of them have services that will require relocation which could prove problematic. The new space standards will also have an effect on current proposals as 10 of the 24 rooms are not compliant with the new space standards. Realising the capital receipts will involve up front expenditure funded from the HIP. The pressure on the programme will make allocation of the necessary resources difficult. For this reason, it is proposed that an alternative approach is investigated, i.e. the possibility of a loft conversion specialist company buying the rooms and taking on the risk and responsibility of converting and selling them on.

Void Sales

25. Since January 2010, 20 units have been marketed, with 8 sold and 2 under offer. To increase sales a marketing strategy was implemented in November 2010. In order to close the funding gap identified in the July 2010 Gateway 3 Report, 16 additional voids were identified and refurbished to disposal specifications. However, 1 of the 16 units has now been used to rehouse the remaining tenant in the Badminton House block (see below) and will need to be replaced. It should be noted that due to the current climate it may be necessary to further increase the number of voids for sale if market values continue to decrease. Due to the current market climate the voids are taking longer to sell than originally anticipated and there are concerns about the number standing empty and the associated risks. As a way forward, the empty voids will be and released for sale in three tranches as the market improves. This opens the possibility for the short term use of some of the properties, which will be explored further.

Table 1

Programme Year	Balance	For Sale	Let for TA use	Vacant or let via short term licence
11/12	41	12	16	13
12/13	29	20	9	0
13/14	9	9	0	0

New Build Land

26. As outlined above, development market conditions have made it difficult to advance the in-fill development. There are a number of other factors to overcome, including producing a design package that will generate the required capital receipt without risking objections from residents. Development will also need to comply with new Core Strategy and the interim London Housing Design Guide standards which have necessitated a significant redesign, and would otherwise have resulted in additional abortive costs. Due to current market circumstances, it is believed that there is an appetite for the small Pytchley Road site as a standalone opportunity. The original proposal was to include all three sites for development as part of the scheme. However, it is recommended that the Pytchley Road site should be the subject of a separate market testing and disposal exercise and to proceed for planning consent on the Gatebeck and Southdown sites. The original proposal for the new build was for 44-46 units (27 social rented and 17-19 private sales). With the omission of the Pytchley Road site, the number of units will reduce from 44/46 to 27 (19 social rented and 8 intermediate affordable). It was envisaged that Gatebeck would be 100% social rented, while Southdown would be a mixture of social rented and intermediate affordable (10 units SR / 8 units IA). See Table 2 below.

Table 2

	0-bed	1-bed	2-bed	2-bed (wc)	3-bed	Total	Flrs
Gatebeck	0	0	0	3	6	9	3
Southdown	0	8	8	2	0	18	4
Total	0	8	8	5	6	27	

27. Achieving the required capital receipt (approximately £1.2m) on Gatebeck and Southdown is also highly dependent on the whether the scheme can attract social housing grant taking into account the resulting rent levels. As a result of the Comprehensive Spending Review 2010, the availability of grant has been substantially reduced, and would be under the new 'Affordable Rent' regime introduced in the HCA Development Framework. Currently, at target rent levels and therefore without grant, the scheme produces a negative value. A desktop valuation suggests that the capital receipt could be achieved at rent level of 65% of market rate and with grant. However, feedback from the HCA about the recent bids suggests that schemes proposing rents at below 80% level are unlikely to attract grant. Therefore, it is proposed that the disposal of Gatebeck and Southdown be delayed for approximately 2 years (i.e. until the next HCA funding round and before the planning consent, if granted, expires) to allow for improvement in either market and/or social housing grant conditions.

28. Hexagon Housing Association was selected in 2004, as the preferred Registered Social Landlord (RSL) partner, to own and manage the units on the Gatebeck and Southdown sites, therefore acting as affordable housing partner to Durkan in the lead developer role. With the changed market conditions, it is accepted that this approach is no longer viable and that Hexagon would need HCA grant funding to proceed. It is therefore proposed that prior to pursuing an alternative approach, Hexagon should be given the opportunity to remain the preferred affordable housing partner with or without grant but should they decide not to remain involved, the opportunity development should be marketed.
29. The planning application will be made in the summer of 2011 for the Gatebeck and Southdown sites and the landscaping, along with outline planning for the drying room conversions. Pre-planning discussions have been held, and no major problems with planning are envisaged.

Badminton House Options Appraisal

30. Badminton House was originally earmarked for refurbishment, but following omission from the Durkan contract, its role in the overall scheme should be re-evaluated. An Options Appraisal (Appendix 2) was undertaken using the options appraisal methodology taking into consideration the three criteria: Net Present Value, Strategic Fit and Risk, Three options were explored:
31. **Option 1 (Refurbish and Retain):** This option would mean bringing all homes up to the required Southwark standard and – based on the stock condition survey – would require investment of £1,145,150 and take 12 months to complete, commencing 2011/12.
32. **Option 2 (Disposal):** This would require disposal of the block to a third party, with an anticipated total land receipt in the order of £1.95m expected in early 2012/13, and with a total disposal cost to the Council of £34,307.
33. **Option 3 (Refurbish, Retain and Dispose of 1 & 2-beds):** This option would mean bringing all homes up to the required Southwark standard, and disposing of the 3 x 2-bed units and 1 x 1-bed unit and would require investment of £1,077,175 and take 18 months to complete commencing 2011/12.

Conclusion

34. The table below shows the ranking of each option against set criteria. The outcome of the options appraisal shows that the most favourable option would be to dispose of the block.

Table 3

Option	£ NPV	Strategic Fit Rank	Risk Rank
Option 1	3	1	2
Option 2	1	3	1
Option 3	2	2	3

35. Option 1 requires the programming of significant resources from the HIP at a time when resources are under particular pressure and in a scheme where the bulk of expenditure carried out has yet to be reimbursed.

36. Option 2 results in the loss of 11 units from the rental stock, including some family sized units but generates the maximum capital receipt.
37. Option 3 still requires full expenditure, and disposals may only generate receipts at the same pace as the general void disposals.
38. Option 2 gives more gain per unit than disposing individually, and would require the council to invest to accrue. The retailers of the commercial units are protected tenants under the Landlord and Tenant Act 1954, and have security of tenure and compensation rights if the lease was contracted under the terms of the 1954 Act. Although disposing of Badminton House would result in the loss of the 8 family sized units in the block, the sale would protect other similar sized units which may need to be sold – requiring a reversal of existing policy - to meet the funding shortfall. Therefore, the recommendation is to dispose of Badminton House via an unconditional land transaction.

Consultation

39. The East Dulwich Estate Regeneration Project Team (EDERPT) have been central to the delivery of the scheme, and have been involved throughout, in the general delivery of the scheme and as circumstances have changed. EDERPT are in favour of additional void sales, as appropriate units become available, and the inclusion of the Whaddon House clinic into the Hidden Homes programme. However, EDERPT's preference for Badminton House is Option 1 followed by Option 3, as both of these options retain units. The group is against Option 2, which is for complete disposal.
40. A consultation event took place in September 2010 providing information on the New Build programme to residents from the estate and the surrounding area. A number of residents from the Bromar Road area raised concerns about the Pytchley Road development and the impact it would have on parking and the proposed height of the building. With the detachment of the Pytchley site from the New Build programme and selling it on to a developer, the resulting planning submission will probably be for less density and more in keeping with the streetscape.
41. Subject to consultation, all approvals and planning consent being in place by September 2011, works are expected to commence in Q3, 2011.
42. The various strands of receipt generation were discussed at the EDERPT meeting held on 24 April 2011. The ongoing and newly arising difficulties with bringing forward new build developments on site were acknowledged. There was support for the separate disposal of the Pytchley Road block, but not for the disposal of Badminton House. EDERPT would prefer for Badminton House to be retained and to be included in a refurbishment programme paid for from further voids disposals.

Community impact statement

43. The proposed recommendations are judged to have minimal impact on the wider community.
- a. The disposal of Badminton House will trigger a new development that will help to diversify the area. There could be a loss of the 2 x commercial units, a convenience store and a barber shop, that the block sits above. As mentioned in paragraph 37, the commercial tenants are protected under the Landlord and Tenant Act 1954. There is a Sainsbury's and another barber shop approximately 100m away so the impact of losing both these units should be minimal to the community who currently use them. The disposal of Badminton house may trigger a new development or alternatively the block may be refurbished and the units rented out or sold on.
 - b. The voids for sale will assist the council in funding the wider regeneration programme for the estate and thus impact on the community in a positive way. For example it will enable completion of the environmental improvements and recycling capital receipts into the housing investment to enable decent homes works to other estates.
 - c. The Whaddon House clinic will generate two residential units which will have little or no impact on the community as the clinic has been closed for sometime now and the space previously accommodated residential units. The new build sites will be made up of mixed tenure and therefore will assist with diversifying the estate, along with the drying room conversions which will be used for private sales to generate additional funding for the wider regeneration programme and also assist with diversifying the estate.
 - d. A number of objections to the proposals for developing the Pytchley Road site have been raised by residents from the surrounding area. By separating this site from the new build application the council may be reducing the impact on the wider community as the Pytchley Road site is more likely to be sold to smaller contractors or developers, who would build houses rather than a block of flats because of the planning consideration threshold.

Resource implications

44. A profile has been developed of all spending and anticipated receipts for all options; attached as Appendix 1. The total cost of the scheme is approximately £31m and includes delivery costs such as an additional £22.5k for new build design and £10K to cover the cost of securing Badminton House until it is sold. With an anticipated receipts package of roughly £30m, there is a net cost to the council of just under £1m. All options incur a net cost to the council, but disposal would cost significantly less.
45. In terms of demand on human resources, there are sufficient resources within Regeneration & Neighbourhood to undertake the disposal of Badminton, the sale of additional voids and the conversion of the Whaddon House Clinic in addition to the redevelopment of the new build sites and drying room conversions. The environmental improvements have already been programmed and resourced.

46. However, if Badminton House were to be refurbished, it would require an estimated investment of £1.2 million to reach the Southwark standard, and will compete for resources with other prevailing decent home priorities.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law and Governance

47. Cabinet is advised that as Badminton House and the Pytchley Road site (the Properties”) are land held for housing purposes any disposal of them can only proceed in accordance with Section 32 of the Housing Act 1985 (as amended) (“the 1985 Act”), for which purposes the consent of the Secretary of State for the Department of Communities and Local Government is required (“the DCLG”). However, a number of general consents have been issued in The General Housing Consents 2005 which permit the sale of housing land, provided that certain conditions are met. It is not yet known the terms upon which the Properties will be sold.
48. If the disposal of the Properties is one which is permitted under the General Disposal Consents 2005 then the recommendations set out in this report are matters reserved to Cabinet for collective decision making. However if the consent of the DCLG to the disposal of the Properties is required (because the disposal does not fall within the General Disposal Consents 2005) then the matters should be reserved to Council Assembly to agree an application to the DCLG for consent to the transfer of the Properties. Further, the Council must consider the representations made by the secure tenants/residents of the Properties (if there are any in occupation) before making any decision in relation to the Properties and the Strategic Director of Regeneration and Neighbourhoods must formally declare the Properties surplus to housing requirements prior to any disposal of the Site.
49. The proposed disposal of the Properties is a matter reserved to Cabinet for collective decision making under Part 3C, paragraph 12 of the council’s constitution.

Finance Director (NR/R&N/18/5/2011)

50. The principle followed throughout the history of this scheme has been to fund the capital costs using originally earmarked resources and those additionally able to be raised within the estate. The current estimated total capital cost of the scheme has risen, over 6 years, from 25.1m to £30.9m (see appendix 1) and requires resourcing from approximately £5m more on-estate capital receipts. These are proposed to be raised from additional void sales, including now the sale of the Badminton House block.
51. The flow of on-estate receipts needs to continue as there has been significant delay to off-estate receipts at Wooddene and Coopers Road, and this slippage may impact on the cash flow of the HIP, as a consequence this programme will need to balance over it’s lifetime to negate additional pressures on the HIP. In addition conversion costs identified in the report will require up front funding from the HIP of indicative costs circa £160k,

52. For Badminton House, option 2 (disposal in current condition) offers the best Net Present Value (NPV) and lowest risk, although the strategic fit is lowest. The NPV calculation takes into account capital and revenue effects over time of the disposal of 11 residential units and 3 commercial units. The units would be excluded from the affordable debt calculation for Southwark's 2012 HRA self-financing settlement, hence bringing a future debt charge reduction to offset the rent loss.
53. Rent loss on properties earmarked for disposal will be limited over the three year term, as previously voided properties will be made available for Temporary Accommodation and Public Sector Landlord usage.

Head of Property

54. The implementation of the environmental works and courtyard improvements are necessary to assist with the void sales. The volume of sales to date have been restrained by wider economic factors and the strict lending criteria applied by lenders. The environmental works will complete the regeneration of the estate and in turn improve the marketability of the voids for sale.
55. It is considered that the Pytchley Road site presents itself as a desirable development opportunity and therefore should be detached from the former proposals that combined it with the Southdown and Gatebeck sites.
56. Developing the Southdown and Gatebeck sites for social housing and delivering a capital receipt, as outlined in paragraphs 26 to 28, will prove to be challenging in the light of the reduced availability of social housing grant. The Head of Property endorses the approach outlined in paragraph 29 i.e. the making of a planning application in respect of these two sites.
57. In accordance with the principles and policy of good asset management laid down by government, together with local authority regulations, councils are required to dispose of surplus property assets subject to best consideration requirements. Any sale of Badminton House and the other sites will need to comply with these requirements. The precise terms of any proposed disposal will be brought back to Cabinet for approval and further recommendation where necessary.

REASONS FOR URGENCY

58. Now that vacant possession of the Badminton House block has been achieved there is a security risk. The block, located in a prominent position and clearly visible, has been subject to numerous break-ins and will be vulnerable to squatting as it now stands empty. A prompt decision on the future of the block is necessary to secure both the council and neighbouring residents' interests.

REASONS FOR LATENESS

59. A significant factor in this report is vacant possession of Badminton House. The rehousing of the remaining resident took slightly longer than anticipated and vacant possession was not able to be achieved for this report to be completed and cleared by the deadline required for the report to be circulated 5 clear working days in advance of the meeting.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
April 2005 Executive report	HRI	Diana Hall 020 7525 7724
July 2010 Gateway 3 Report	HRI	Diana Hall 020 7525 7724
Badminton House Options Appraisal	HRI	Diana Hall 020 7525 7724

APPENDICES

Appendix	Title
Appendix 1	Scheme Finance

AUDIT TRAIL

Cabinet Member	Councillor Ian Wingfield, Deputy Leader and Housing Management	
Lead Officer	Eleanor Kelly, Deputy Chief Executive	
Report Author	Diana Hall, Project Officer - Estate Regeneration Team	
Version	Final	
Dated	23 May 2011	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director for Communities, Law and Governance	Yes	Yes
Finance Director	Yes	Yes
Head of Property	Yes	Yes
Cabinet Members	Yes	Yes
Date final report sent to Constitutional/Community Council/Scrutiny Team		23 May 2011