

Item No. 10.	Classification: Open	Date: 19 March 2013	Meeting Name: Cabinet
Report title:		East Dulwich Estate Regeneration Scheme and Scheme Finance Update	
Ward(s) or groups affected:		South Camberwell Ward	
Cabinet Member:		Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	

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

Much has been achieved already in the regeneration of the East Dulwich Estate, but in many ways the most crucial stage has now been reached. Although there is still much to do, this does signal the final phase of the process. The regeneration of the estate has set many challenges, and facing up to them has necessitated the creation of a fairly unique mix of solutions, which owe a great deal to the support and dedication of residents.

The scheme has already had a long duration, and some adjustments have been necessary along the way, both using some of the lessons learned and reacting to changing circumstances. We have seen major disruption to the economic system which has impacted at East Dulwich Estate because of the commitment to finance the scheme from capital receipts, a process in which the estate has played its part, by raising capital through the sale of assets. We again find ourselves at a point where some reflection is necessary.

I think it is important that we honour our commitment to undertake the environmental works, both in terms of meeting the aspirations of residents and also in completing the physical aspects of the regeneration. I am also pleased to recommend that the new build on the Gatebeck and Southdown sites will now produce new council homes and that the drying room conversions will also be taken on by the council as a way of maximising income generation, and maintaining control over the process.

Finally, I would like to thank the East Dulwich Estate Regeneration Project Team for all their hard work; and all residents of the estate for their patience in what has been a very lengthy but successful process.

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 Report and 2011 cabinet report in the light of changed circumstances.

2. Agrees the new build housing proposed for the former sites of Gatebeck House and Southdown House is developed as council housing as part of the direct delivery programme, as outlined at paragraphs 19-22.
3. Agrees that the conversion works to the drying rooms for sale are delivered by the council directly as outlined at paragraphs 26 - 28.
4. Agrees that the environmental works will include a proportion of environmental improvement works as well as the health & safety works required as outlined at paragraphs 23 - 25.
5. Notes the current shortfall in the supply of the voids for sale and the proposals to identify further units as set out at paragraph 29.
6. Agrees in outline the financial arrangements to achieve the outcome of the above recommendations as set out at paragraphs 15 - 18.

BACKGROUND INFORMATION

7. This report reviews progress on the strands of delivery of the East Dulwich Estate regeneration scheme and the financial position arising. It also notes the effect of a range of circumstances that have changed during the life of the scheme, and recommends the strategy and financial arrangements to enable completion of delivery.
8. The East Dulwich Estate is made up of 753 properties, in 24 blocks. The estate 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 a combined redevelopment and refurbishment of the estate. Following a review, the Executive agreed a new approach to the regeneration programme in April 2005, based on the following principles:
 - The SEI principle of self financing. A capital receipt of £15.11m was to be generated from ring-fenced off-estate disposals and the remainder (£9.89m) of required resources were to be generated through the sale of voids and converted loft spaces, and disposal of land on the estate.
 - The decision to refurbish or dispose of void properties was to be taken on value for money grounds. However, the units for disposal were to exclude units that were 3-bed or larger and that were on the lower floors (ground, first and second floors).
 - The scheme objectives, which included the visual and social transformation of the estate, went beyond that of a typical refurbishment programme. Therefore the refurbishment was to be carried out to a high quality standard and the scheme was to incorporate a replacement community centre and environmental improvements.
9. To date refurbishment work has been undertaken to the residential blocks, and the Albrighton Centre upgrade has been completed, but the environmental works are still outstanding.
10. The initial budget agreed for the scheme was £25 million and the on-estate disposals consisted of 34 voids-for-sale, 32 drying room conversions and 3 parcels of land at 1-11 Pytchley Road and the sites of previously demolished Gatebeck and Southdown Houses.

11. In 2010, due to an increase in anticipated scheme expenditure to beyond £31m and reduced receipt projections due to market conditions, the Strategic Director of Environment and Housing agreed a series of actions to curtail expenditure and to increase the on-estate resource requirement to £10.32m by increasing the voids-for-sale to 50 units. In 2011, cabinet agreed the disposal of Badminton House, and that 1-11 Pytchley Road would be decoupled from the Gatebeck and Southdown sites and disposed of separately, but still to generate capital receipts for the scheme.
12. The drying room conversions have decreased in number to 18, due to failure of 6 of the drying rooms to meet the required space standards for residential accommodation.
13. Disposal of the former 1-11 Pytchley Road site has been completed and planning consent has been granted. It is anticipated that the receipt will have been received in early March 2013.
14. It was intended that the Gatebeck and Southdown sites would be disposed of to Hexagon Housing Association, who were selected in 2004, to develop the affordable housing and to generate capital receipts. As stated below, this part of the scheme has been the subject of multiple delays due to changes in market conditions and funding regimes affecting viability. In November 2012, the council made a single planning application for the new build, drying room conversions and the environmental works.

KEY ISSUES FOR CONSIDERATION

Scheme Finance

15. The former and current scheme finance position is set out in Appendix 1. Of the projected £30,681,381 scheme costs £27,623,442 has been spent to date towards delivery of the refurbishment works, the Albrighton Hall redevelopment, fitting out the voids-for-sale, design development of the new build sites and the planning submission.
16. As stated above, the regeneration scheme is predicated on the generation of capital receipts. Current projections are for £15,110,000 to be raised from off-estate resources (Coopers Road, Wooddene, Bermondsey Spa [Dickens Estate] and Miscellaneous Disposals) and £14,273,950 from on-estate resources for the scheme reshaped in 2010 and 2011 as explained in paragraph 11. The increased expenditure approved in May 2011 was expected to be met from disposals on East Dulwich Estate, with £2.2m to be raised from the sale of 24 drying room conversions; £8.76m from the sale of 50 voids-for-sale and £4.1m to be raised from the disposal of land. As circumstances have continued to evolve, the anticipated receipt for the voids-for-sale has increased to £9.02m, while the receipt for the drying room conversions has decreased from £2.2m to £1.6m due to the reduction from 24 to 18 drying rooms.
17. It was projected that £900,000 was to be raised from the disposal of the sites at Gatebeck and Southdown to Hexagon Housing Association, based on a mixed tenure development of new affordable housing and cross subsidy from housing for sale. However, adverse market conditions, new requirements in design specification and changes to the funding regime made a meaningful disposal difficult; this is explored in more detail in paragraphs 20 – 23. In May 2011, it was

decided to hold off the disposal of the Gatebeck and Southdown sites until market conditions improved. However, prospects have not significantly improved and in October 2012, the sites were identified in a list of schemes to be worked up to form Phase 1 of the direct delivery council build programme. By opting for direct delivery, the council will forego the full disposal receipt, and the implications of that are explored further in paragraphs 19 - 22, but there will be a compensating revenue benefit of approximately £160,573 per year that the council will receive from the new build units. The council will receive just over the equivalent of the projected land sale receipt from rent revenue by year 5 (2020/21) at £1.02m from both the social rented and shared ownership units. Also, the associated design development and planning fees can be subsumed in the direct delivery programme.

18. As a result of the above factors, there is an additional funding requirement of £1,297,431. On this basis, it is therefore proposed that the approach for the East Dulwich Estate scheme is amended as detailed in the various delivery strands below.

New Build

19. 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 has reduced to 27 (19 social rented and 8 intermediate affordable). It is envisaged that Gatebeck is delivered as 100% social rented, while Southdown is a mixture of social rented and social homebuy (shared ownership) (10 units SR / 8 units SO). See Table 1 below.

Table 1

	0-bed	1-bed	2-bed	2-bed (wc)	3-bed	Total	Flrs
Gatebeck	0	0	0	3	6	9	3
Southdown	0	8 (SO)	2	0	8	18	4
Total	0	8	2	3	14	27	

20. Achieving the target capital receipt (approximately £900,000) from the development of the Gatebeck and Southdown sites was highly dependent on whether the scheme could attract social housing grant taking into account the potential resulting rent levels. As a result of the Comprehensive Spending Review 2010, under the Affordable Housing Programme 2011-15, the availability of grant has been substantially reduced, and would be under the new 'Affordable Rent' regime introduced in the HCA Development Framework. Currently, assuming 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. The HCA Framework and the GLA interpretation suggests that would be possible but the value of introducing the affordable rent product into the regeneration of the estate is of questionable merit.
21. 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 concluded that

this approach is no longer viable and that Hexagon would need HCA grant funding to proceed. With the changes to the HCA funding criteria described above, proceeding with a registered provider as a partner is less attractive, therefore a new direction was sought and a direct delivery approach is recommended as the way forward.

22. The direct delivery approach will result in forgoing a potential capital receipt of £900,000, but there will be an anticipated receipt from shared ownership disposals of £400,000 and rental income accrued from the new build units will provide a long term revenue stream. Also, direct management and letting by the council would be more beneficial in the long term. Therefore, it is proposed that the new build sites are developed as council homes for social rent and social homebuy.

Environmental Works

23. In view of the dilapidated state of much of the external fabric of the estate between and surrounding the refurbished blocks, the council's priority is to undertake £1m worth of remedial works to the following key existing elements on the Estate:

- Retaining and freestanding brick walls, brick planters and steps
- Boundary wall railings
- The external drainage
- Tarmac & other pavings within the courtyards
- The air raid shelters on the Estate.

24. In delivering this part of the scheme, it is intended to identify design solutions that will help reduce the council's maintenance liabilities and preserve existing trees.

25. The second key part of the brief is the council's commitment to enhancing the Estate's external spaces through identifiable improvements to the estate's courtyards, play areas, estate roads and green spaces. This is an important factor in completing the regeneration of the estate and in marketing the void for sale properties and drying room conversions. There has been extensive public consultation with residents which explained the proposals to improve the estate, particularly courtyard improvements, playground refurbishment and greening improvements. There is therefore an expectation among residents that some of the funding will be spent on actual improvements, along with resident support for the proposals.

26. A budget of £1.5m has been allocated to the environmental works, but with the onset of the necessary remedial works, most of the budget is no longer available to deliver the environmental improvement works. Therefore, an additional budget of £1m is necessary to cover the costs of the environmental works and the associated fees.

Drying Room Conversions

27. The scope for conversions is less than originally envisaged because of the location of services in and around the rooms. Initially it was anticipated that 32 drying rooms would be converted, and that the works would be carried out by the refurbishment contractor, Durkan, at the same time as the main refurbishment works. However, due to the overspend, this element was removed from the programme. In 2011, the number of viable spaces decreased to 24 because of

tank works and has now reduced even further to 18, due to revised space standards resulting in a number of the rooms no longer being compliant.

28. There are essentially two options open to the council to deliver the scheme:
- a) The council contracts with a third party developer to convert and sell the units. The price for the development would be agreed and paid at the outset with a sales overage condition. It is estimated that the capital receipt in this scenario for the 18 x drying room disposals is £1.2 - £1.4m. This option means that the developer carries the risk in terms of build costs, sales prices however the council will by default bear the costs of transferring this risk (the developers profit & contingency) in reduced receipts.
 - b) The council funds and carries out the conversion of the drying rooms and in turn sold them on the private market, in essence assuming the role of developer. The receipt to the council would increase to circa £1.95m to £2.15m. This assumes a four phased approach over 36 months. This would require a peak finance provision of £350,000. It is envisaged that the development account would have a positive balance at 9 months into the delivery timetable.
29. It is therefore recommended that the council fund and carry out the drying room conversions over the 3-year period with forward funding of £350,000. This option would generate a higher capital receipt of £1.6m, based on the lower end figure shown above in Option B, in the long-term and would also afford the council the control over the build programme bearing in mind there are residents in occupation either below or next door to each of the 18 conversion opportunities.

Void Sales

30. Since January 2010, 34 units have been sold on the open market using two locally based estate agents. Sales were slow to begin with, but the level of interest built over time and the sales, and the values achieved, have increased. Currently, there are 6 further units under offer and 3 units on the market. In order to close the funding gap identified in the July 2010 Gateway 3 Report, 16 additional voids-for-sale were identified and refurbished to disposal specifications. However, 2 of the 16 units have now been used for re-lets, 1 unit was withdrawn due to water damage and 4 were incorrectly identified. Therefore, 7 future voids-for-sale would need to be identified for refurbishment and these will be identified from forthcoming vacancies, but subject to the same criteria.

Hidden Homes

31. Two of the properties scheduled for development as part of the Hidden Homes programme includes the conversion of a former clinic on the ground floor in Whaddon House. The PCT took the decision to relocate the functions of the clinic to the Dulwich Hospital site. Work began at the end of November 2012 and is scheduled to finish in May 2013. Once completed, 2 x 2 bedroom units will be available for letting via the council's housing list. Although contributing to the regeneration of the estate, the financing is separate from the overall arrangements for the estate that are the subject of this report.

Consultation

32. The East Dulwich Estate Regeneration Project Team (EDERPT) has been central to the delivery of the scheme, and has been involved throughout, and as circumstances have changed. They have understood and supported the need for the voids-for-sale and drying room conversions to raise capital receipts and have also had input into the design of the new build blocks. The group has also been very interested in the scope and delivery of the environmental works and has successfully bid for funding from the SITA Trust to transform a tarmac courtyard into a community garden.
33. A consultation event took place in May 2012 providing information on the new build programme, environmental works and the drying room conversions to residents from the estate. The event was advertised via posters placed within each block and notices delivered to all households. 26 residents attended the event, where the architect, landscape architect and council officers were in attendance to discuss the proposals and respond to any queries raised. Only 7 of the residents who attended commented on the new build proposals with half supporting the works and half against the works due to disruption, reduced parking, loss of play space and distance between existing and new build block.
34. Formal planning consultation commenced in December 2012, but queries were raised regarding the notifications by the East Dulwich Estate Regeneration Project Team (EDERPT) resulting in the consultation period being extended to February to ensure full resident participation.
35. Subject to consultation, all approvals and planning consent being in place during March 2013, environmental works are expected to commence in late 2013 and the new build works early in Quarter 4, 2014.

Community impact assessment

36. The proposed recommendations are judged to have minimal impact on the wider community.
 - a. The voids-for-sale and drying room conversions 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.
 - b. The proposed environmental works have been key in marketing and selling the void properties and estate residents are also keen to see these works underway.
 - 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.
 - d. 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 meeting the council's aspiration to support mixed and balanced communities.

Resource implications

37. A profile has been developed of all spending and anticipated receipts; attached as Appendix 1. The scheme has an approved budget of £31.2m. The total projected cost of the scheme is approximately £30.6m and with an anticipated receipts package of roughly £29.38m, further resources will need to be identified from the HIP.
38. In terms of demand on human resources, there are sufficient resources within Regeneration & Neighbourhood to undertake the property disposals 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.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Legal Services

39. This report provides an update on the progress with the plans to regenerate a number of sites within the Borough. It had previously been anticipated that there would be a number of disposals and authority has previously been obtained. The current position concerning those disposals is set out in the report and can be summarised:
 - a) The disposal of 1-11 Pytchley Road has previously been approved and has now been completed.
 - b) The disposal of the site at Gatebeck / Southdown cannot proceed as anticipated due to the availability of grant from the HCA no longer being available at viable levels. As a result, this site will be retained by the council and regenerated as part of the direct delivery programme.
40. Accordingly, there are no particular legal issues arising from the report at this stage.

Strategic Director of Finance & Corporate Services (FC13/009)

41. The strategic director of finance and corporate services notes the progress on the East Dulwich Estate regeneration scheme, including a forecast reduction in costs from £31.2m (reported to cabinet in 2011) to £30.6m to-date. There is a need to continue close monitoring of this programme to ensure best value is achieved and to identify early any variances to cost.
42. The scheme resources will be funded from capital receipts, as detailed in Appendix 1. In the event that capital receipts generated exceed the forecast cost then surplus will be returned to the capital programme and used for future investment.
43. The strategic director of finance and corporate services notes that staffing resources to support this programme are contained within the council's existing budget.

Head of Specialist Housing Services

44. Some of the environmental works will be service chargeable under the terms of the lease. If the costs to individual leaseholders are more than £250 then statutory consultation under section 20 of the landlord and tenant act 1985 (as amended) will be required. If the contract is tendered out then the consultation will be a two stage process, with a notice of intention being required pre-tender and a notice of proposal being required post-tender.
45. These service charges will be in addition to the previous large service charges billed to the leaseholders on the estate for the main refurbishment works. The council has a number of repayment options available to leaseholders to assist them to pay their major works service charge bills, including (for resident leaseholders only) extensive interest free periods.
46. Home Ownership notes the proposals concerning the disposal on Shared Ownership terms of 8 units on the Southdown House new-build site.
47. Consideration needs to be given as to the most suitable method of co-ordinating the specification, marketing and disposal processes of the new-build units. The model adopted for the refurbishment and disposal of void units in Maydew House, Rotherhithe strategically links the refurbishment and disposal so that potential developers are to be sourced from a pool of those experienced in both refurbishment and marketing of developments in a regeneration environment.
48. It is not proposed that the Home Ownership Service is directly involved in the marketing of the void units for sale, however, it is imperative that the service is consulted in respect of the terms of the leases to be granted and the statutory consents that will be required under section 32 of the Housing Act 1985 as the service will be required to construct and collect service charges for the properties in the future. For ease of future financial as well as building management it is crucial that the terms of the precedent leases broadly match those used for sales under the statutory Right to Buy Scheme and Social Homebuy Scheme.
49. In terms of the sales administration, in the interest of consistency with other home ownership products offered by the council, it is recommended that the team of officers within HOS already dealing with financial assessments of tenants purchasing homes under Social HomeBuy or Cash Incentive schemes and rehousing assistance for leaseholders affected by regeneration also provide this service for those purchasing under shared ownership terms for these new build properties. Their input will be necessary in ascertaining the viability of minimum purchase levels, equity rent levels, etc for individual schemes which impact on financial modelling.
50. The development of land on the East Dulwich Estate may result in leaseholders claiming the council is derogating from grant. The relevant test to be applied when assessing derogation from grant is whether the council are making leasehold premises on the estate "unfit or materially less fit to be used for the particular purpose for which the demise was made'. Therefore, when assessing development sites on the East Dulwich Estate, regard should be had to the impact on existing leaseholders. Consultation should be carried out with leaseholders prior to commencing works so concerns can be raised and, when necessary, alternative arrangements put in place to alleviate these concerns.

BACKGROUND PAPERS

Background Papers	Held At	Contact
April 2005 Executive report	http://modern.gov.southwark.gov.uk/CeListDocuments.aspx?Committeed=118&MeetingId=981&DF=05%2f04%2f2005&Ver=2	Diana Hall 020 7525 7724

APPENDICES

No.	Title
Appendix 1	Scheme Finance

AUDIT TRAIL

Cabinet Member	Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	
Lead Officer	Eleanor Kelly, Chief Executive	
Report Author	Diana Hall, Project Coordinator - Estate Regeneration Team	
Version	Final	
Dated	7 March 2013	
Key Decision?	No	
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 Specialist Housing Services	Yes	Yes
Cabinet Members	Yes	Yes
Date final report sent to Constitutional Team	7 March 2013	