| Committee: Cabinet | Date: 7th March 2007 | Classification: Unrestricted | Report No: | Agenda Item No: |
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| Report of: Corporate Director of Development and Renewal<br><br>Originating Officer(s):<br><br>Chris Holme - Service Head Resources | | Title: Ocean New Deal for Communities (NDC)<br><br>Wards Affected: Limehouse, St. Dunstans & Stepney Green | | |

# 1. SUMMARY

1.1 This report advises members of the outcome of the Communities and Local Government rapid review of the Ocean New Deal for Communities programme, and seeks Cabinet approval for a revised outline housing regeneration scheme, proposed new management arrangements for the Ocean, and the draft outline Delivery Plan for 2007/08.

# 2. RECOMMENDATIONS

The Cabinet is recommended to:

## *2.1 The Rapid Review Context (Section 4)*

2.1.1 Note the outcome of the Communities and Local Government rapid review and its implications for the Ocean New Deal for Communities programme.

2.1.2 Note the indicative funding gap with regard to delivery of the regeneration of the Ocean Estate, as identified in paragraphs 4.3 and 5.4 of the report.

2.1.3 Note that New Deal for Communities (NDC) grant cannot be utilised to fund a decent homes package (paragraph 4.8).

2.1.4 Note that the NDC funding allocated for housing regeneration (£17.4million and for community facilities (£1.8million) is predicated on an alternative regeneration package being identified that will ensure transformational change on the estate.

2.1.5 Note that the NDC funding allocated for housing regeneration and community facilities is further dependent on the Council's housing capital programme allocation (£14.25million) remaining ring-fenced for the Ocean Estate.

## *2.2 The Revised Approach to Housing Regeneration (Section 5)*

2.2.1 Agree that the Regeneration Partnership Approach, as set out in paragraphs 5.4 to 5.10 of the report, provides the optimum approach to delivering transformational change, in that it enables retained stock to remain within the Council's control, and tenancies of retained stock to remain secure Council tenancies, while attracting partnership investment funding for both refurbishment and new build of mixed tenure homes on the estate.

2.2.2 Note that the Regeneration Approach is dependent upon a number of "feeder" sites, listed in paragraph 5.15, being placed, when vacated, into a special purpose vehicle on a long leasehold basis, for nil consideration.

2.2.3 Agree that the feeder sites/ buildings listed in paragraph 5.15 be declared surplus to requirements, upon satisfactory relocation of existing service providers where appropriate.

2.2.4 Agree that the Corporate Director of Development and Renewal can transfer the feeder sites, as listed in paragraph 5.15, when vacated, to a special purpose vehicle on a long leasehold basis, at nil consideration.

2.2.5 Note that the Regeneration Partnership Approach is further dependent on Urban Block E (Option 1) comprising the blocks listed in paragraph 5.9.1, or Urban Block E and Urban Block F (Option 2) comprising the blocks listed in paragraphs 5.9.1 and 5.10.1, also being placed, when vacant, into the special purpose vehicle on a long leasehold basis, for nil consideration.

2.2.6 Agree that the Corporate Director of Development and Renewal can transfer Urban Block E, or Urban Block E and Urban Block F, when vacant, to the special purpose vehicle on a long leasehold basis, for nil consideration.

2.2.7 Note that Option 2, as set out in paragraph 5.10 is likely to provide the most comprehensive regeneration for the estate, but agree that both options 1 and 2 will be worked up further.

2.2.8 Authorise the Corporate Director of Development and Renewal, after consultation with the Assistant Chief Executive (Legal Services) and Director of Resources to determine the form of procurement for an investment partner, as set out in paragraph 5.6, in accordance with European Union procurement rules and financial regulations.

### *2.3 The Vacation of Council Blocks*

2.3.1 Note that the blocks grouped in Urban Block E, and listed in paragraph 5.9.1 already have decant status.

2.3.2 Agree that decant status be granted, with effect from September 2007, for the blocks grouped in Urban Block F and listed in paragraph 5.10.1.

2.3.3 Authorise the Corporate Director of Development and Renewal to negotiate voluntary buyback of leaseholder interests in Urban Block F, as set out in paragraph 5.17.

2.3.4 Agree that a Compulsory Purchase Order (CPO) shall be made as set out in paragraph 5.18 of the report, in respect of all interests in the properties listed in paragraph 5.18.3 (Urban Block E), and to include in the CPO any further properties bought under right to buy, prior to the expected date of taking possession under the CPO, and authorise the Corporate Director of Development and Renewal, after consultation with the Assistant Chief Executive (Legal Services) and Director of Resources to make the CPO and carry out all necessary steps to acquire the properties.

### *2.4 Capital Estimates*

2.4.1 To adopt a capital estimate, to the value of £33.45million, comprising £19.2million NDC grant and £14.25 from the Housing capital programme, for the capital costs arising from the development and delivery of a housing regeneration programme for the Ocean Estate, and associated decants.

2.4.2 Subject to recommendation 2.5.1 above, approve the use of retained development and legal consultants, as set out in paragraphs 5.6.4 and 5.6.5 of the report to further develop the scheme to enable delivery within NDC grant timescales.

### *2.5 Community Facilities (Section 6)*

2.5.1 Note that as part of the regeneration programme, new and improved community facilities will be provided on the estate.

2.5.2 Note that three of the feeder sites set out in paragraph 5.15 (LIFRA Community Hall, Haileybury Centre and 79 Ben Jonson Road) are currently occupied by organisations providing vital community services, and that continuity of provision of accommodation will be protected and built into the timetable for the regeneration programme.

### *2.6 Delivery Plan 2007/08 (Section 7)*

2.6.1 Agree the draft outline Delivery Plan for 2007/8, for submission to Government Office for London, and delegate authority to the Corporate Director, Development and Renewal to effect minor amendments to the text.

2.6.2 Agree interim funding for the first quarter 2007/8 for a number of projects originally scheduled for continuation (paragraph 7.7).

2.6.3 Note that detailed Delivery Plan will be submitted for members' consideration in June 2007.

### *2.7 Delivery Arrangements (Section 8)*

2.7.1 Agree in principle the revised delivery arrangements for the Ocean NDC programme, as set out in section 8 of the report, and note that final arrangements will be set out in the report accompanying the detailed delivery plan in June 2007.

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**Local Government Act, 1972 Section 100D (as amended)**
**List of "Background Papers" used in the preparation of this report**

| Brief description of "Background paper" | Name and telephone number of holder and address where open |
|---|---|
| Ocean NDC files | Chris Holme (ext 4987<br>and Niall McGowan (ext 2538) |

## 3. BACKGROUND

3.1 The Ocean New Deal for Communities (NDC) programme commenced in 2000 and was intended to be a 10 year initiative, completing in 2010 with a total Neighbourhood Renewal Unit funding allocation of £56.6million. However this sum was also to be matched by significant external funding.

3.2 In 2000 the first Ocean NDC Delivery Plan set out a vision for the estate the by the year 2010, *"the Ocean will be a beautiful place to live at the heart of London rich in its culture, education and employment."*

3.3 During the first 7 years the programme has spent £31.8million leaving £24.8million available for the remaining 3 years. Of this, £21.4million is ring-fenced for the housing, community facilities and management arrangements. That leaves £3.3million available for delivering the remaining outcomes and priorities of the NDC, over the three year period to 2010.

3.4 The NDC programme has been predicated on the transformation of the built environment. Much of the estate was built between 1949 and the 1960s and is in need of significant investment. The Council's stock on the Ocean comprises some 1,100 rented and 450 leasehold homes. Only 4% of stock meets the decent homes standard. The planned improvements were dependent on residents agreeing to a transfer of landlord enabling a package of funding to be released.

3.5 In 2005 a development brief was prepared by the Council to provide a framework to guide the physical development of the estate, in association with the Ocean NDC, and the preferred delivery partner. This was agreed by Cabinet in March 2005. The partner would have delivered a £190million housing investment package.

3.6 That £190million was made up as follows:

| | **£(m)** |
|---|---:|
| NDC Grant | 17.4 |
| LBTH Capital Programme | 15.0 |
| CLG Gap Funding | 30.8 |
| Sanctuary Housing (incl cross subsidy through development of housing for sale, borrowing and use of reserves) | 126.8 |
| Total | 190.0 |

3.7 Each financial year, in its role as Accountable Body, the Council is required to approve the Annual Delivery Plan for the Ocean NDC Programme. The Delivery Plan provides a detailed breakdown of the proposed expenditure for the financial year and describes the project activities to be undertaken together with project milestones and key indicators of performance. It provides the basis for a funding agreement with Government Office for London to deliver the outputs and outcomes set out in the plan.

## 4. CURRENT POSITION – HOUSING PROGRAMME

4.1 In September 2006 residents of the estate voted against transfer of the stock to a Registered Social Landlord (RSL). Consequently the planned means to support the major housing regeneration improvements could not be progressed.

4.2 The financial implications of not transferring the estate to an RSL are severe. The £190million Sanctuary Housing scheme would have led to the refurbishment of over 40 blocks of flats to a high standard, well above the requirements of the decent homes standard, as well as delivering substantial environmental improvements. The scheme would also have redeveloped a further 15 blocks to provide new affordable rented and shared ownership homes, primarily for existing residents.

4.3 In addition to some £24million resources that the RSL partner was uniquely able to invest, the transfer scheme would have accessed special "gap" funding of £31million from central government. That funding was dependent on stock transfer, and is now no longer available. The ***minimum*** loss of capital resources for housing redevelopment and refurbishment, arising from the no vote, is therefore £55million.

4.4 Furthermore, Sanctuary would have provided £3million additional funding towards community facilities in the area, supplementing NDC grant of £1.8million set aside for this purpose. This means any community facilities programme would have to be acutely curtailed, from £4.8million to a maximum of £1.8million.

4.5 Due to the very severe impact of the no vote on the delivery of the programme, officials from Communities and Local Government (CLG) commissioned two Neighbourhood Renewal Advisors to undertake a rapid review of the NDC. The aims and objectives of that review were to:

a) clarify in detail how the planned £17.43m NDC grant would have been spent, as part of the transfer, on housing improvements;
b) assess the implications of the negative ballot for the NDC's ability to deliver the plans at a) above;

c) if appropriate, identify and assess any alternative plans the NDC has to spend the £17.43m on housing work, in terms of their feasibility and deliverability; and
d) assess the wider implications on the NDC's capacity to deliver remainder of the programme.

4.6 The findings of that review were presented to the Ocean NDC board on the 14th December 2006. With regard to the housing programme, they are as follows:

- The Council, as accountable authority and the lead housing agency for the NDC area should be asked to take a clear leadership role on developing a housing regeneration strategy for the estate, including future local management arrangements and meeting Decent Homes. The report made it clear that it is not the responsibility of Ocean NDC to lead on these issues, though the report stated that LBTH will need to work closely with the NDC.
- That the Council develop a robust and plausible physical redevelopment and financial model for the estate (or significant parts of it) with a detailed delivery/action plan in place and agreed by Cabinet by the end of March 2007.
- That until there is absolute confidence that a robust financial housing regeneration model, delivery plan and strong project delivery team is in place, there should be no commitment on the future availability of any or part of the NDC funding for housing regeneration or of the capital funding for community facilities
- The community facilities capital funding should be held back pending any future housing regeneration programme with funding priorities being reviewed to reflect changes in the housing programme and a comprehensive re-assessment of the local need for community facilities

4.7 The review also made a number of recommendations relating to governance arrangements and the residual non-housing programme. These are set out later in the report.

4.8 Because of the absence of an alternative plan for investing the £19million for housing and community facilities, this part of the funding package is now held in abeyance pending the development of an alternative proposal, by the Council, which will effect transformational change to the estate. Transformational change goes beyond the requirement to meet the decent homes standard. CLG have made it clear that NDC grant cannot be used to fund a decent homes package in isolation. Furthermore availability of this part of the NDC grant is predicated on the Council re-affirming its funding commitment of £14.25million.

4.9 A viable housing strategy is therefore required in order to:

- address as far as possible the regeneration needs of the homes on Ocean and the aspirations of its residents, whilst recognising that a whole estate stock transfer has been rejected;
- meet CLG's stipulation for transformational change, in order to secure NDC grant;
- compensate for the loss of private finance which would have been levered in through transfer to an RSL, and for the loss of CLG gap funding;
- tackle the continuing deterioration of the housing stock on Ocean;
- minimise further delay, which gradually impacts on the project via inflation on building costs, and reduces the value of fixed public funding over time.

## 5. HOUSING OPTIONS

5.1 Officers have been assessing the options open to the Council in the light of the residents' decision to reject stock transfer. It must be emphasized that all costings are at this stage indicative. The options are as follows:-

5.2 ***ALMO***

5.2.1 The Council is proposing to set up an Arms Length Management Organisation to manage retained stock, in order to help it to deliver decent homes standard. The Ocean Estate was not included in the costings for the ALMO because it was in the stock transfer programme at the time of the application, and estates cannot be entered for two different government investment programmes at the same time. It could now be included, but there are serious drawbacks to this.

5.2.2 The "Decent Homes" standard includes basic *repair* work to blocks (roofs, windows, brick and concrete) and tenanted homes (electrical installations, water services, heating systems, kitchens, bathrooms and wc's).

5.2.3 Structural surveys and resident consultation over several years have shown that Ocean's needs cannot be successfully tackled without the kind of transformational change which CLG has made a precondition of NDC funding: basic repairs alone will not address the scale of housing or other forms of deprivation across the area, which led to its designation as an NDC.

5.2.4 The cost of these basic repairs is estimated to be **£35.1million**. However, the Council cannot access the ring-fenced NDC grant for achieving the decent homes standard because it does not deliver transformational change. The only funding available is the Council's capital contribution of **£14.25million**, leaving a shortfall of some **£20.85million**.

5.2.5 If the ALMO reaches two star status, and the maximum amount of £190 million of decent homes investment funding is received, it can be seen that the Ocean Estate would require over 10% of the total ( maximum ) amount of funding available to the council, which would jeopardise the delivery of decent homes standard investment to the rest of the stock.

### *5.3 Private Finance Initiative*

5.3.1 This programme might have delivered a higher level of investment, suitable to the needs of the Ocean Estate. However, new applications for PFI are no longer being accepted.

### *5.4 Housing Regeneration Options*

5.4.1 The regeneration of the Ocean Estate has always assumed a higher level of investment than basic decent homes would achieve. A more comprehensive approach would include substantial modernisation and improvements, including improvements to the local environment. It would be a wide-reaching regeneration package which would seek to deliver as many of the aims of the original masterplan as possible, and which could therefore be deemed to be transformational change, as required if the NDC grant is to be retained for the estate.

5.4.2 The estimated cost of this option is **£69.4million**, which includes £21million for environmental improvements. Resources available from NDC grant and the Council's capital contribution equate to some **£33.4million**, leaving a shortfall of some **£36million**.

5.4.3 The shortfall, in any regeneration scheme, has to be accessed through funding from a partner Registered Social Landlord, or private investor. The Council itself cannot realistically raise the level of investment required. As on some of the stock transfer programmes, RSLs can deliver cross subsidy on estates by redeveloping key sites in and around an estate. Though land for potential development is limited, that option still exists on Ocean, as there are a number of blocks on the estate, and some sites around the estate, that are suitable for mixed tenure regeneration to deliver both a net increase in affordable homes for rent and for shared ownership, and homes for outright sale.

5.4.4 Therefore, options for regeneration based schemes are considered to be the most viable for Ocean, and two alternatives are set out in paragraphs 5.9 and 5.10 below.

### *5.5 A Special Purpose Vehicle/Community Trust Model.*

5.5.1 One of the key factors that must be incorporated into any regeneration scheme for Ocean is the continuing presence of the Council as the key stakeholder and freeholder of the land and residential properties. Residents have rejected outright transfer to a third party. Retention by the Council has to be reconciled with the need to secure third party investment.

5.5.2 A model that has been used to good effect elsewhere in the country is the setting up of a joint venture or special purpose vehicle that takes the form of a community based trust. This is of additional interest because it would help to deliver some of the key original aims of the New Deal for Communities concept. Recent workshops with NDC resident board members indicate that this is an approach that would be likely to find favour on the estate, compared with outright stock transfer.

5.5.3 Much more detailed work on the nature of the special purpose vehicle is required, but the model suggests that the freehold of land/sites is retained by the Council, and that a long lease is granted to the special purpose vehicle, which itself would grant a lease to one or more RSL/developer partners. The partnership would then able to bring in the investment to deliver new homes. The Council and the partner organisations would form a trust, with resident involvement/representation, to deliver and manage the resulting units.

5.5.4 It should be noted that retained stock, to be refurbished, would remain in Council ownership and that no tenancies would be transferred.

5.5.5 Section 8 below sets out the basic format for a delivery mechanism, which could also serve as a new delivery vehicle for the remaining NDC programme.

### 5.6 *Partnership Procurement*

5.6.1 The detail of the options - in terms of numbers, specific tenures on each site, cross-subsidy from private sales and specific planning requirements – can only be worked up fully once the partner(s) is on board. Indeed the procurement process will be geared to seek ideas on the most effective way to increase income to the project, to enhance the refurbishment of the residual Council stock and/or provide more new affordable homes.

5.6.2 Selection of development partner(s) would be undertaken via a full competitive tendering process, advertised in the Official Journal of the European Union (OJEU). The approximate timetable for selection of partners is as follows:-

- Place an advertisement in the Official Journal of the European Union (OJEU) describing the project and the envisaged implementation requirements and inviting expression of interests March 2007. Expressions of interest would be received mid-April, 2007.
- Evaluate the completed responses and establish a preliminary shortlist of bidders by end of April ‘07.

- Interview the preliminary short-listed bidders and establish a final short-list of bidders by mid-May '07.
- Subject to timescales for condition surveys, business planning and sensitivity analyses, risk assessment, revised masterplanning and capacity testing to develop the scheme – all of which feeds into the preparation of bid documentation – the tender process could commence by late July '07. The tender period will be 3 months to reflect the time of year and the level of detail required from bidders.
- Receive final bids by November 2007.
- Carry out evaluation and further interviews with bidders until January 2008.
- Selection of preferred bidder and report to Cabinet by February/March 2008.
- Negotiate details and contractual terms of the final overall scheme with the preferred bidder and sign the contract - Principal Development Agreement (PDA) by June 2008.

5.6.3 The overall process typically can take at least a year and with the many strands involved in the current proposal could take longer. It may be necessary to obtain outline planning approval and detailed approval for the first phase, before the PDA can be signed. Due to these time pressures, and the fact that the procurement exercise itself is likely to be complex and lengthy, it is proposed that determination of the form of procurement and the scoping of the partnership is delegated to the Director of Development and Renewal, in consultation with the Assistant Chief Executive (Legal Services) and Director of Resources.

5.6.4 To enable the above procurement process to be progressed and the scheme to be developed, addressing issues of viability and risk, it is essential that we develop a fully costed model, which also takes the masterplan to the next stage, including outline and initial detailed planning approvals. This will ensure that independent analysis provides a viable and deliverable assessment framework for partner bids, and should expedite partner selection and sign-up. It will also incorporate the refurbishment works which remain the Council's responsibility, and enable the scheme to be progressed within the tight timescales required through the NDC grant process. Some of the costs incurred in this preparatory work should be reflected in the tender process.

5.6.5 The works outlined in paragraph 5.6.4 above were originally procured through formal competitive OJEU processes. Approval is therefore sought to continue development of the scheme, with our retained development and legal consultants. A significant part of the costs will be recharged to the procurement partner(s) once appointed. This would be funded from the identified resources for the development.

5.7 There will be a need for ongoing consultation with key stakeholders across the estate. The indicative options have been presented to Ocean NDC (primarily resident representative) board members for information, following an initial development workshop. The options have also been presented to all affected ward Members.

5.8 A strategy for consultation with stakeholders will be devised to include:-

- an update to all residents, explaining the process to look at options for Ocean, following the failed stock transfer ballot;
- a specific approach to residents affected by the decants (i.e. tenants, leaseholders, Ocean Traders' Association and non secure tenants), explaining the likely timescales for decant, and the way that this will be managed, including the precautionary CPO process which will run alongside ongoing negotiations;
- liaison with key services, including local schools, specific community service providers, including those operating from the community facilities, health authority, other (RSL) local landlords etc.
- involvement of resident representatives in qualitative elements of the partner procurement process.
- Holding exhibitions to illustrate and explain the development of proposals and for planning consultation purposes.

### *5.9 Regeneration Scheme Option 1*

5.9.1 Option 1 would require the redevelopment of the area identified in the Council approved masterplan for the estate as urban block E (comprising Aden, Bengal, Caspian, Darien, Flores, Riga and Taranto Houses – see attached plan as **Appendix 1a**). These blocks have had long-standing decant status since their identification as the most appropriate to kick-start a major redevelopment and regeneration of Ocean. The remainder of the estate would be refurbished to decent homes plus standard.

5.9.2 In addition to redeveloping the urban blocks it is necessary to develop a number of smaller Council-owned "feeder" sites in the area. These were identified during the masterplanning process to help ensure that there is no overall loss of affordable housing across the whole scheme, and to help make the scheme financially viable by releasing more land to build homes for sale elsewhere, and thus generate vital cross-subsidy. Some of these sites, or the leasehold interests in them, were acquired for this purpose. Details of the feeder sites are set out in section 5.13 below

5.9.3 Key aspects of this outline proposal are as follows:-

- Urban Block E and feeder sites would be placed (on a long lease) within a special purpose vehicle/ trust to a partner for redevelopment of 215 homes for rent, with no net loss of affordable housing;

- The development partner would build 339 homes for sale to provide cross subsidy for the refurbishment of the remaining 896 rented homes on the estate to Decent Homes Plus standards, with environmental improvements.

- Decant of around 15 remaining Council tenants, with provision for a new RSL home in the area, or to remain a secure Council tenant.

- Buy-back of 20 remaining leasehold properties, with an opportunity for those resident leaseholders who wish to remain in the area to do so, by recycling their equity back into some form of flexible home ownership, to be provided by the RSL/Developer partner.

| Demolish urban block E | | New homes | | | Refurbish up to 50 Council blocks | |
|---|---|---|---|---|---|---|
| Rent | Leasehold | Rent and shared ownerhip on site E | Rent and shared ownership on feeder sites | For sale on site E | Rent | Leasehold |
| 215 | 20 | 115 | 100 | 339 | 896 | 439 |

Costing (indicative) around £136 million this option could be achieved if:-

- projected Council and NDC contributions remain at present levels;
- the disposal of land to the Ocean Regeneration Trust at nil value is agreed;
- the homes built for sale generate projected receipts of £69 million;
- additional Housing Corporation Social Housing Grant (SHG) funding of £8.5 million is available for the feeder sites
- at least 20% of the affordable replacement homes are for shared ownership, thus generating additional receipts;

### *5.10 Regeneration Scheme (Option 2)*

5.10.1 Option 2 would require the redevelopment of Urban Block E (as above) and Urban Block F as identified in the Council approved masterplan (comprising Andaman, Atlantic and Marmora Houses, and 29-45 Ben Jonson Road), plus the feeder sites. The sites are set out in **Appendix 1b**. This would be a rolling programme, with homes on the feeder sites and/or the redeveloped Urban Block E site providing new RSL homes for tenants decanting from urban blocks

E and F. The remainder of the estate would be refurbished to decent homes plus standard.

5.10.2 Key aspects of this option are:

- Urban Block E & F and feeder sites would be placed (on a long lease) within a special purpose vehicle/ trust to a partner for redevelopment of 303 homes for rent, with no net loss of affordable housing;

- The development partner would build 533 homes for sale to provide cross subsidy to refurbish the remaining 808 rented homes on the estate to Decent Homes Plus standards, with environmental improvements.

- decant of around 100 tenants from Council homes in urban blocks E and F with provision for a new RSL home within the scheme, or to opt to remain a secure Council tenant.

- buy-back of 39 leasehold properties, with an opportunity for those resident leaseholders who wish to remain in the area to do so, by recycling their equity back into some form of flexible home ownership to be provided by the RSL/Developer partner.

| Demolish urban block E/F | | New homes | | | Refurbish more than 40 Council blocks | |
|---|---|---|---|---|---|---|
| Rent | Leasehold | Rent and shared ownerhip on site E/F | Rent and shared ownership on feeder sites | For sale on site E/F | Rent | Leasehold |
| 303 | 39 | 215 | 88 | 533 | 808 | 420 |

5.10.3 Costing (indicative) around £180 million, this could be achieved if:-

- projected Council and NDC contributions remain at present levels;

- the disposal of land to the Ocean Regeneration Trust at nil value is agreed;

- the homes built for sale achieve projected receipts of £105 million;

- additional SHG funding of £7.5 million is made available for the feeder sites, (assuming none is required for the urban block E and F sites);

- at least 20% of the affordable replacement homes are for shared ownership, thus generating additional receipts, and fulfilling Council planning policy.

5.11 Delivery of either options 1 and 2 would both provide a measure of transformational regeneration. Current indicative projections suggest the approaches could enable like-for-like demolition and new-build of between 215 and 303 affordable rented homes by a development partner and the regeneration of sufficient cross subsidy through the construction and sale of new private homes to help fund a programme of “decent homes plus” improvements across the residual stock on the estate. Each option would provide new affordable rented homes, diversify tenure and meet the masterplan principles for the area.

5.12 Initial assessments indicate Option 2 offers a greater regeneration opportunity, in terms of:-

- numbers of new affordable homes, potentially addressing both decant and overcrowding needs in the area;
- enhancement in the quality of refurbishment work affordable elsewhere on Ocean, by potentially increasing cross-subsidy whilst redeveloping those blocks estimated to cost the most for basic decent homes repairs
- meeting residents’ aspirations within the masterplan, for new homes, comprehensive refurbishment and a generally enhanced area.

5.13 As set out in paragraph 5.9.2 above, both regeneration options 1 and 2 are predicated on the use of Council owned “feeder” sites in the area.

5.14 The redevelopment of the “feeder sites” has been included in the viability calculations for the indicative options above. At this stage it is estimated that collectively these sites could yield around 100 homes for affordable rent, or a combination of rent/shared ownership, to help replace those demolished in the urban blocks. More detailed capacity studies are currently being carried out, as well as preliminary discussions with the planners and the Housing Corporation to determine whether these sites can attract Social Housing Grant on the grounds that affordable homes built on them will satisfy “additionality” funding requirements.

***5.15 The Feeder Sites***

5.15.1 The development “feeder” sites that are required for either regeneration option are all owned by the Council and include:-

- ***35 Essian Street E1*:** former glass factory fronting regents canal – site acquired under the SRB1 programme by LBTH Housing for development – it is included in the Ocean masterplan for a mixed use scheme and is currently licensed to Bellways/East Thames as a site compound for the

Harford Street development;

- ***79 Ben Jonson Road:*** site acquired by LBTH Housing for SRB1 programme - it was redeveloped as an office for the former Stepney Housing and Development Agency (SHADA) and is currently licensed to the Primary Care Trust, which plans to move to new premises at the Harford Street development;

- ***LIFRA Community Hall on Halley Street,E1***, Built on land transferred under the Education (ILEA) (Property Transfer) Order,1990. This is currently under the control of Housing. Use by a residents' association ended in 2006, but the building remains in use by the Limehouse Project.

- ***Dame Colet House***, Ben Jonson Road E1: 2 storey former community facilities, currently squatted with legal action pending; it was leased to Bethnal Green and Victoria Park Housing Association, who surrendered it to LBTH in November 2004.

- ***Haileybury Centre**,* Ben Jonson Road E1 – community building with amenity land – currently providing services for young people. A leasehold interest held by the Haileybury Trust was bought out with Housing capital monies in 2004/05 to facilitate its inclusion as a feeder site.

5.15.2 In order to deliver a workable regeneration housing package members' approval is sought to declare the above sites surplus to requirements. It is proposed that they would be included in the special purpose vehicle/trust as set out above, to enable their redevelopment. The timing of any redevelopment would depend upon satisfactory re-provision of facilities to maintain key services.

5.15.3 It is recognised that continuity of provision must be made for services currently being provided in the community premises on the feeder sites, with an emphasis on providing improved and more appropriate facilities within the context of the reduced capital funding available (refer to paragraph 6 below.)

***5.16 Decant Strategy***

5.16.1 Officers will need to develop a clear decant strategy for Urban blocks E and F, in the context of the Council's borough-wide commitments, the emerging ALMO and Homeless Services, which has placed nearly 300 non-secure tenants in the Ocean area, (mostly within urban block E).

5.16.2 Urban block E has long-standing decant status funded from the housing capital programme, and work will continue to secure the overall clearance of these first seven housing blocks by summer 2008. During the decant process to date, officers have liaised closely to assess its impact on local schools and other services, including shops. Decants will continue to be managed with the aim of minimising disruption to schools and other services as far as possible.

5.16.3 It may be necessary to temporarily re-house some of the few remaining tenants from urban block E if they wish to take up the option of a new RSL home within the scheme, because these will not be ready until 2009.

5.16.4 Urban block F does not yet have decant status, and this is sought, effective from September 2007 for the following blocks: Andaman, Atlantic and Marmora Houses, and 29-45 Ben Jonson Road. This will allow time to plan a coherent decant strategy and determine the required clearance date. Prospective partners' may be asked to demonstrate programming of works and decant management within the competitive procurement exercise.

5.16.5 It is envisaged that around 88 tenants, to be re-housed from the urban block F site, will have the opportunity to move straight to new RSL homes on the feeder sites, or urban block E sites. A specific strategy will need to be devised for those opting to remain in Council tenure.

5.16.6 Significant capital resources will be required to cover the costs of decants, including statutory home loss payments and reasonable costs for removals and replacement of carpets and curtains etc. Depending on the timing of decants, further monies may be required for minor repairs and redecorating of homes used as temporary accommodation for tenants, pending their final re-housing.

### *5.17 Leaseholder Buy-backs*

5.17.1 The Council has been buying back leaseholder properties on Ocean since 2000. Some 35 leaseholders have been bought out so far, each making their own arrangements for replacement housing: 20 leasehold properties remain in urban block E and 19 in urban block F.

5.17.2 The buy-back process comprises direct negotiations between the Council and the leaseholder, or their legal representative. These negotiations may also involve a regeneration partner, in due course, to help expedite the buy-back. The procurement process will seek ideas from prospective partners to help address the tenant and leaseholder buy-back requirements of the scheme.

5.17.3 The timing of the programme means that temporary accommodation may have to be considered in appropriate circumstances.

5.17.4 When the Council buys back leaseholder properties, leaseholders receive the full current market value of their property. If they are unhappy with the valuation figure, they can challenge the price. In addition leaseholders who occupy their properties as their “principal” homes receive an additional 10% of the final negotiated market value as a statutory “Home Loss” payment.

5.17.5 To help displaced Ocean leaseholders move to their new homes, their reasonable moving costs are paid, for example, solicitors’ and valuers’ professional fees, the hire of private removal companies, disconnection and reconnection of cookers, washing machines, and all associated domestic costs of moving from one property to another, including an allowance for carpets and curtains etc.

5.17.6 Where a resident leaseholder makes their own arrangements, the Council meets the reasonable cost of stamp duty.

5.17.7 Buy-backs within urban block E will be prioritised but provision also needs to be made for voluntary buy-backs from urban block F, since its inclusion in this scheme may make it harder for leaseholders to sell privately and they need to have the option of selling back to the Council (at full market value) if they wish to do so voluntarily. It is therefore requested that officers are authorised now to negotiate with leaseholders in urban block F, if they wish to come forward independently and sell back their leasehold interests to the Council.

5.17.8 The costs of these leaseholder buy-backs will be contained within the Council’s overall provisional housing capital contribution as set out in paragraph 5.4.2 above.

5.17.9 Members should also be aware that much of this capital outlay may be reinvested in the scheme if leaseholders take up an option to invest the equity they retain after buy-back in a new home in the area – for example through a flexible home ownership option with the appointed partner. If the approach set out in this report is agreed, officers will contact all leaseholders in urban blocks E and F to explain the present position.

### *5.18 Compulsory Purchase Order (CPO)*

5.18.1 Pursuant to Circular 6/2004 the Council will continue to pursue voluntary negotiations with the affected leaseholders and to respond sensitively to their specific issues and concerns. However given the scale of the proposed project, the overall regeneration benefits to the community as a whole and the urgency to start redevelopment as soon as possible – given the lengthy delays which have already arisen and the risk of losing resources if they continue - it will be necessary to commence a precautionary CPO process on urban block E, to run in tandem with negotiations by the Council and its appointed partner(s).

5.18.2 It is therefore requested that delegated authority be given to the corporate Director of Development and Renewal to make a CPO in the most appropriate manner, in consultation with Assistant Chief Executive (Legal Services) and Director of Resources, to enable the buy-back of leaseholder properties in the blocks identified in paragraph 5.18.3 below, and to include in the CPO any further properties bought under the right-to-buy in the named blocks between this report and the expected date of taking possession under the CPO.

5.18.3 Included in the CPO for urban block E will be all interests in the following properties:

- Bengal House: nos.24, 33, 38, 40, 82.
- Caspian House: nos.4, 6, 8, 23.
- Darien House: no. 20.
- Flores House: nos. 6, 9, 22.
- Riga House: nos. 2, 6,10,15,19.
- Taranto House: nos.2, 18.

5.18.4 This measure is necessary, since a failure to ultimately secure full vacant possession of the blocks could delay the wider regeneration scheme for the whole area, creating huge over-runs of time and money. The making of a CPO will not diminish the Council's efforts to secure vacant possession by negotiation with individual leaseholders.

5.18.5 The capital costs associated with the CPO process will be contained within the Council's overall provisional housing capital contribution as set out in paragraph 5.4.2 above.

## 6. COMMUNITY FACILITIES

6.1 As set out in paragraph 4.6, above, capital expenditure programmed for community facilities must be held back pending agreement by CLG to a workable housing regeneration solution.

6.2 The housing regeneration options set out in paragraph 5 above require the redevelopment of some existing facilities for use as feeder sites. It is recognised that continuity of provision must be made for services currently being provided in these facilities.

6.3 In 2004 an Ocean NDC community facilities strategy was developed as part of the housing stock transfer offer to residents, which comprised the development of four new or improved community facilities, funded through NDC grant (£1.8m) and Sanctuary Housing (£3m). In addition a new facility would be provided as part of the redevelopment of the Harford Street gasworks site by Bellway Homes and East Thames Housing, which is due to complete in spring 2008. Details of the strategy are set out in annexe 5 to the draft outline delivery plan. As a result of the no vote in the stock transfer ballot, the £3million is no longer available, and a new realisable approach is required.

6.4 That approach must focus on local needs, across the whole estate, taking account of the need for housing transformational change, and the significant reduction in capital funding. This is most likely to be delivered through focusing limited capital resources on rationalization of facilities and re-provision for priority services affected by any redevelopment. Council and Ocean NDC officers are currently reviewing the use of community facilities and the services operating from them. Consideration will be given to the options for best use of the community buildings across Ocean, including those proposed for demolition and the sites they currently occupy.

6.5 As set out in paragraph 6.2 above, it is recognised that continuity of provision of those services operating from the facilities designated for redevelopment is essential. Within the context of the resources available for development of community facilities, the intention will be to provide improved and more appropriate facilities. Lease of these sites for redevelopment will only be disposed to the special purpose vehicle following satisfactory relocation of the service providers.

## 7. NON-HOUSING PROGRAMME AND DELIVERY PLAN 2007/8

7.1 The CLG review recommended that the residual non-housing programme should also be reviewed to ensure that remaining funding is available for strategic activities, and that administrative costs are reassessed so that size and composition reflects future needs.

7.2 In light of the review, CLG have agreed that an agreed outline Delivery Plan be prepared, by the Council, by the end of March 2007, and a full plan by the end of June. This will facilitate an interim funding agreement from Government Office for London, to release funding for the first three months of the financial year. This is set out as **Appendix 2**.

7.3 There are limited resources available for the remainder of the non-housing programme. Much of the investment in services is now complete, and organisations are implementing their forward strategies. All organisations where projects are scheduled to complete at the end of this financial year have been notified of finalisation deadlines.

7.4 As part of the annual NDC performance management review, officers have assessed those priority outcomes where the programme has performed well, and those where there is still much to do to achieve programme targets. In addition, work has been done to strengthen the alignment with wider LAP 3 priorities.

7.5 The proposed key focus areas are set out in the outline delivery plan, and summarised below:

- Literacy and numeracy
- Employment support
- Access to primary care services
- Reducing drug offending
- Promotion of healthy lifestyles
- Support for local businesses

7.6 Within these priority areas particular attention will be focused on specific groups, including NEET (young people not in education employment or training) and the elderly.

7.7 There will be a need to provide some residual funding for a number of organisations that were originally scheduled for continuation, and it is recommended that this be for the first three months pending a review of strategic fit. That review will be undertaken before the end of the current financial year. Details of those organisations affected are set out in annexe 4 the draft delivery plan.

7.8 The proposed 3 month continuation will require the earmarking of some £268,000 of non-housing NDC revenue resources.

7.9 A review of the management and administrative requirements of the new structure will take place following approval of the revised plans by CLG. It is anticipated that decisions on this will be made by September 2007 and that implementation will take place over the following six months.

## 8. REVISED NDC DELIVERY ARRANGEMENTS

8.1 The CLG independent review concluded that, as constituted, the current NDC board is unlikely to be able to take the strategic decisions that are now needed to develop and manage the NDC's future programme. The review considered it necessary to address the need for a governance arrangement capable of delivering it.

8.2 It recommended consideration of a small strategic management group that could take over responsibility of the remaining non-housing NDC programme and provide the NDC input into a housing regeneration programme if this goes ahead.

8.3 A review of governance models has been undertaken and it is now recommended that a new Special Purpose Vehicle (SPV) be set up to oversee the programme.

8.4 It is proposed that the SPV will be a charitable trust and will take on ownership and management of both the housing regeneration and the community facilities developed and funded by the NDC as part of the housing redevelopment programme thus enabling the programme to develop an asset base upon which a succession and legacy strategy can be built. It will be able to bid for other resources to continue the impact of the programme and to support on going work on neighbourhood management and inward investment. Board members would be appointed through a transparent process, and individual membership will be dependent on the skills required. It will include Council, community and key partner representation. Further details are set out in annexe 6 of the appended delivery plan.

8.5 It is proposed that the SPV will have three sub -groups who will be represented on the main board:

- **Neighbourhood regeneration** whose initial role will be to work with residents through a number of advisory groups and to ensure that delivery reflects local need, to liaise with the housing management board (see below), to bid for external funding and to be responsible for the non housing project appraisals.

- **Housing management** whose role will be to be involved in developing proposals for the revised Masterplan for the estate, to build local capacity to take responsibility for management of the local housing stock and influence local policies on housing management on Ocean, and to make recommendations for priorities regarding environmental improvements.

- **Development** whose role will be to make recommendations on the approval of works and appointment of contractors, to ensure that effective change control and risk management processes are in place, and to ensure that effective resident consultation arrangements are in place.

8.6 It is anticipated that subject to CLG approval the new arrangements will agreed by summer and in place by December 2007. Cabinet approval is now sought for the proposed revised delivery arrangements.

## 9. OVERALL PROJECT TIMETABLE

9.1 The proposed regeneration programme is a rolling scheme, going beyond the lifespan of the current New Deals for Communities programme, with new affordable homes generated in the early stages enabling the decants required for the later stages. Any delay in obtaining vacant possession of the grouping of blocks in urban block E, and/or the feeder sites, will impact on the rest of the new-build development programme.

9.2 An indicative timetable is set out below:

| Projected Dates | Key Programme Events |
|---|---|
| March 2007 | Commencement of procurement |
| May 2008 | Completion of new community facility in Harford Street |
| June 2008 | Appointment of partner(s) |
| September 2008 | Start of redevelopment on urban block E, subject to full decant and leaseholder buy-backs |
| August 2008 | Start of new-build on 1 or more feeder sites. |
| August 2008 | Start of refurbishment programme – phase 1. |
| January 2009 | Start on site of at least 1 new replacement community facility, |
| August 2009 | Start on site for further feeder sites, subject to relocation/re-provision of existing services. |
| December 2009 | Completion of a new community facility. |
| February 2010 | Completion of initial feeder sites, providing new homes for rent and shared ownership. |
| August 2011 | Completion of new mixed tenure homes for sale and rent on site E. |
| August 2011 | Completion of further feeder sites, providing new homes for rent and shared ownership. |
| January 2012 | Start of redevelopment on urban block F, subject to full decant and leaseholder buy-backs |
| December 2014 | Completion of new, mixed tenure homes for sale and rent on site F. |
| December 2014 | Completion of estate-wide refurbishment and environmental works. |

## 10. CONCURRENT REPORT OF THE ASSISTANT CHIEF EXECUTIVE (LEGAL)

10.1 The Council can transfer ownership of community facilities, communal open spaces, common parts shops and other areas not occupied by a secure tenant to a partner with the consent of the Secretary of State. This consent may be sought expressly but, depending on the terms, might also be made under pre-approved General Consents under section 25 Local Government Act 1988. No ballot is needed for such transfers.

10.2 Transfer of management responsibilities to a partner for a period of more than 12 months creates a long term agreement which under section 20 Landlord and Tenant Act 1985 which must be taken to consultation with leaseholders. This could be done at the same time as the tender proposed in paragraph 5.6. This need to consult will also apply to the partner SPV proposed in paragraph 8 unless the total charge per leaseholder for that service is estimated to be always below £100 per leasehold flat.

10.3 A compulsory purchase order can be made for housing purposes under Part II Housing Act 1985. A qualitative or quantitative change in the housing stock is required to be proved. It is thought that the transformational change being sought in this report provides a compelling case for making a CPO.

10.4 A compulsory purchase order of a dwelling interferes with the Article 6 Human Right to the home of the occupier and breaches the right to property held by the owner of the dwelling under Article 1 of the First Protocol. However the Human Rights Act and case law makes clear that such breaches can be justified if the proportionate gain in the overall quality or quantity of housing is in the public interest and overreaches the individuals rights provided the individual is treated fairly. It is well established that the compensation regime in England is fair and lawful. If there is a compelling case to make the CPO in the public interest then it should normally be that the balancing exercise needed will also come out in favour of approving the CPO. This is a matter which the Secretary of State must consider when deciding if to confirm the CPO and consequently there is no need for councillors at this stage to strike this balance. However it is likely from the information in this report that the housing gains to be made will provide the compelling case to justify a CPO and justify the unavoidable interference with the human rights of the individuals concerned.

## 11. COMMENTS OF THE CHIEF FINANCIAL OFFICER

11.1 The report sets out strategic options for the regeneration of the Ocean Estate. The report underlines that, following the 'no' vote on stock transfer, access to NDC grant from the Government is only available if a proposal is put forward which delivers transformational change to the estate. Funding is not available for a project which would deliver no more than the decent homes standard. Neither is the use of funding potentially levered in through the creation of an ALMO an option, because of the very high cost of the repairs needed on this estate.

11.2 The report therefore sets out two versions of an alternative model, which involves setting up a Special Purpose Vehicle to work in partnership with an RSL or a private developer to regenerate parts of the estate and the surrounding area. The partner organisation would be selected by open tender. The financial benefit in using this model is that it would be likely to satisfy the requirement of the Government in allocating NDC Grant, and should enable significant additional funding to be levered in to the arrangement by the partner.

11.3 The financial details of the scheme would be subject to the tendering process and negotiation with the selected partner, but the report sets out illustrative figures. Any transfer of risk between the authority and the partners would also need to be considered at the tendering stage. The project would also need to be set up so as to be financially efficient, which includes minimising the cost of ongoing debt and any tax implications, and again this would depend upon discussions with the potential partners. Any significant financial implications arising from this would need to be reported to Members at that stage.

11.4 The authority's financial contribution would be in the form of a direct capital investment of £14.3m, which was the contribution intended under the stock transfer scheme, and in the provision of long leases on the feeder sites, which are currently owned by the Council. None of the feeder sites are currently earmarked for disposal for other purposes. The Council's contribution would include the cost of completing the decant of key blocks, including leaseholder buyouts. It is suggested that, in order to show its commitment to the project, the authority should adopt a capital estimate for its full contribution at this stage.

11.5 The development and procurement process will be complex and is likely to cost in the region of £1million. These costs would need to be met from the capital estimate.

11.6 The proposed scheme includes the potential for a bid for resources to the Housing Corporation for Social Housing Grant. In the event that this bid by the partner organisation was not successful, the scheme would need to be scaled back to accommodate it.

11.7 Tower Hamlets would be the accountable body for the grant funding allocated to the project and would be required to account fully for this funding and demonstrate the necessary outcomes. In the event that the outcomes are not delivered, the authority would be liable to repay the grants allocated.

11.8 The Special Purpose Vehicle appears to represent a significant opportunity to retain the NDC grant and attracting additional investment to the Ocean Estate to enable the decent homes standard to be delivered and significant redevelopment of parts of the estate. It is anticipated that Option 2 would lever in a larger investment than Option 1.

## 12. EQUAL OPPORTUNITIES IMPLICATIONS

12.1 The proposed housing regeneration programme and draft Delivery Plan are specifically aimed at addressing the causes and consequences of social exclusion.

## 13. ANTI-POVERTY IMPLICATIONS

13.1 The Ocean NDC area, home to approximately 6,500 people was identified in the 2000 Indices of Deprivation as being one of the most deprived areas of the country. All projects and activities funded as part of the Ocean NDC Programme are designed to tackle the causes and effects deprivation including poverty.

## 14. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

14.1 No specific implications.

## 15. RISK MANAGEMENT IMPLICATIONS

15.1 The amount of capital funding originally available for the redevelopment and refurbishment of homes on the Ocean Estate is at least £50m less than would have been available under the Sanctuary Scheme. The ability to build new affordable housing and refurbish the remaining stock to an acceptable standard is dependant upon the ability to use proceeds from the sale of homes to cross subsidise the cost; to attract Social Housing Grant; to develop five “feeder” sites for affordable housing; and for the RSL to capitalise rental income to fund future refurbishment works. Therefore:

- Costs must be rigorously assessed and controlled to enable the preferred option to deliver best value.
- The works need to be undertaken in such a way to minimise tax liability including VAT and procured competitively to achieve value for money.
- The development and refurbishment programme will be spread over a number of years and during this period priorities may change giving rise to opportunities as well as threats which cannot be foreseen now.

15.2 The delivery of a workable regeneration housing package is predicated by leaseholder buy-in, required to mitigate challenges to the leaseholder CPO. The provisions within this report have been geared to the Council’s desire to treat leaseholders with consideration and flexibilities as far as possible.

15.3 An effective strategy to deal with leaseholders who may be left in hardship and require assistance in re-housing following displacements, will need to be devised by the regeneration partner in consultation with the Council.

## APPENDICES

This report has the following appendices:

**Appendix 1a** – Map showing indicative option 1 with Urban Block E and feeder sites

**Appendix 1b** – Map showing indicative option 2 with Urban Blocks E and F and feeder sites

**Appendix 2** – Outline Delivery Plan 2007/8 (annexe 3 separate)