


<p>Cabinet</p> <p>Tuesday 26 July 2016</p>	 <p>TOWER HAMLETS</p>
<p>Report of: Aman Dalvi, Corporate Director of Development and Renewal</p>	<p>Classification: Unrestricted</p>
<p>Blackwall Reach Regeneration Project: Update Budget Report</p>	

Lead Member	Councillor Rachel Blake, Cabinet Member for Strategic Development
Originating Officer(s)	Niall McGowan, Housing Regeneration Manager / Jackie Odunoye, Service Head, Strategy, Regeneration and Sustainability
Wards affected	Poplar
Key Decision?	No
Community Plan Theme	A Great Place to Live

Executive Summary

This report updates the Mayor on progress being made in delivery of the Blackwall Reach Regeneration scheme, and on Council expenditure to date, in the context of overall scheme value, regeneration benefits and current forecasts of enhanced scheme coverage to reimburse costs in due course. Land assembly issues are discussed, including the Council's compulsory purchase process. Further funding provision is requested to enable the Council to meet its contractual obligations from 2016 to the end of the project in c.2023/24.

Recommendations:

The Mayor in Cabinet is recommended to:

1. Note the update on scheme delivery and the Council's CPO in paragraphs 3.2.1 to 3.2.12.
2. Note the update on actual and projected expenditure, scheme funding and potential coverage in paragraphs 3.3.1 – 3.3.14.
3. Approve an increase in the capital budget for the scheme to £20.3 million, as set out in paragraphs 3.3.2 to 3.3.8 of the report.

1. REASONS FOR THE DECISIONS

- 1.1 Of the council's £14.5 million capital resources initially allocated for this project, some £13.416 million has been spent and projected expenditure, primarily on land assembly, means this original capital estimate will be exceeded during 2016/17.
- 1.2 It is necessary to review expenditure and funding projections in the context of the Council's ongoing responsibilities, shared with its partner the GLA, to facilitate the scheme; and to note that whilst costs have increased against 2009 projections, in the light of the wider scheme outputs, including increased forecast overage, the scheme remains good value for money.
- 1.3 As part of the 2016/17 budget process, £4.5 million was set aside as funding for the increased costs of land assembly, and an increased funding provision of a further £1.3 million is requested for use in future years, as other allocated resources are expended, to fund completion of land assembly and a retained client project administration function. Without the funding requested there would be a risk that the Council might fail to meet its contractual obligations, or could delay or fail to achieve its long-term target of recouping as much overage as possible from the overall project to reimburse its enabling capital expenditure.

2. ALTERNATIVE OPTIONS

- 2.1 There is not an alternative option. The Council is contractually committed to the scheme and needs to meet its on-going obligations, including further decants, land assembly, support to achieve necessary planning sign-offs, maximisation of community benefits, and monitoring the project to claim anticipated overage from its developer partner. Failure to fund anticipated costs would put the council at risk of breaching its contractual obligations and jeopardising the overall regeneration of Blackwall Reach that it has supported by capital funding essential project work. Not agreeing the recommended action would inhibit scheme delivery and potentially delay or prevent the council receiving its share of overage, which is expected to offset additional monies requested and much of the Council's expenditure to date.

3. DETAILS OF REPORT

3.1 Project Partnership

- 3.1.1 Blackwall Reach Regeneration is a flagship council scheme, comprising eight hectares of homes, former and existing business sites and open space, located between Cotton Street, Aspen Way, the Blackwall Tunnel Approach and East India Dock Road in E14. The project sites are clustered around the Council's Robin Hood Gardens (RHG) Estate in Poplar Ward, in an area that, at scheme inception (in the former Blackwall and Cubitt /Town Wards), was ranked in the top 2% most deprived in England, according to the Index of Deprivation 2010.
- 3.1.2 The scheme is a priority for the Council, to improve the lives of existing residents, and to create new housing opportunities in a modern, attractive and sustainable setting. The regeneration brings in cross-sector resources of more than £430 million to build c.1,575 new homes including:

- 679 affordable homes (51% by habitable rooms)

- of which 561 are for rent by local people at social rents i.e. *not* so-called affordable rent,

These replace the existing 207 rented and 45 privately owned homes at RHG. The scheme also increases and improves open space and play provision, creates new community facilities and generates funding, for example to expand the local Woolmore Primary School, now completed. Contributions from ground rents and £1 million from the developer will support a new Blackwall Reach Trust, to oversee the new central park and support community initiatives in years to come.

- 3.1.3 The scheme took several years to get underway, impacted by the economic crash which delayed both design and procurement, and with pauses to obtain and then refresh a Certificate of Immunity From Listing for Robin Hood Gardens. More recently there has been additional delay whilst awaiting the Secretary of State's decision on the confirmation of a Compulsory Purchase Order across the envisaged site. The vision and masterplan were in the making since 2007, through Council policy development, design work to understand the context of the site, extensive community consultation – with an option for existing residents to move to a new home on-site - and implemented outline planning approval across the proposed scheme area.
- 3.1.4 The project evolved as a long-term partnership between the Council and GLA, combining their adjoining land holdings and funding the enabling stages of the project, including ongoing land assembly, to comprehensively transform a wider area than would not have been possible acting alone. This enabled a design to deliver significant numbers of new homes of all tenures. Together the Council and GLA have freehold ownership of more than 80% of the development land. We jointly procured and appointed Swan Housing Association in 2011 to deliver the partners' outline scheme in 5 phases: 1A, 1B, 2, 3 and 4.

3.2 Scheme progress: construction, land assembly and CPO

- 3.2.1 The scheme is well underway. Phase 1A was completed by Swan in the north-west corner of the site in 2015, providing 98 new homes for social rent and shared ownership, primarily for decanting tenants and resident home owners from RHG. Swan's new community centre will be fitted out and ready for business later this year, for both the new Swan residents and the residual council tenants. The new three-form entry Woolmore School has also been completed, extending across an enlarged site acquired using Council capital resources, providing places for the much larger Blackwall Reach community as future scheme phases are delivered.
- 3.2.2 Building Agreements are being finalised between the partners for Swan to commence construction of 242 new homes on the Phase 1B site, in the south-west corner of the scheme area. Site facilitation works are already underway. Swan is submitting reserved matters planning applications for its detailed designs for Phase 2, incorporating the western RHG blocks and neighbouring Anderson House, and part of the existing central open space which will be re-landscaped. Demolition and redevelopment for Phase 2 will commence later in 2016, bringing forward 239 new homes, including 111 affordable homes. Swan will submit detailed designs for planning consideration for Phase 3 (the eastern part of RHG) for an envisaged start on site by 2019/20.

- 3.2.3 The Council and GLA have been engaged in land assembly, particularly to facilitate Phases 1A, 1B and 2 of the scheme, including the purchase of sites and properties within their respective freehold areas. A single, area-wide CPO was approved by the then Mayor in Cabinet in July 2012 and made by the Council as the Acquiring Authority in 2013.
- 3.2.4 The Secretary of State for Communities and Local Government ordered that a public inquiry concerning the CPO be held and this concluded in 2014. Arvin and Sons Limited, a business leaseholder of the GLA within the wider Phase 4 area, was legally represented during the inquiry and maintained their objection.
- 3.2.5 The Inspector who conducted the inquiry concluded that the Council, as the Acquiring Authority had made a strong case for the CPO of Phases 1a, 1b, 2 and 3, alongside the confirmation of a S19 order for the Millennium Green and necessary stopping-up orders. He recommended to the Secretary of State that the CPO be confirmed for Phases 1 to 3 inclusive. In respect of Phase 4 however the Inspector took the view that it had not been sufficiently demonstrated that the CPO was a matter of “last resort” in the negotiations with Arvin; and that detailed discussions, with goodwill on both sides, could result in amendments to the scheme that would allow Arvin to be incorporated into it.
- 3.2.6 The Inspector recognised that the omission of Phase 4 in its entirety carried a risk that agreement would not be reached and that a further CPO was inevitable. Therefore he recommended that the Secretary of State use his powers under s13C of the Acquisition of Land Act 1981 to confirm the order in parts and postpone considering the CPO for Phase 4 until such time as the parties had had the opportunity to negotiate and test alternative ways of integrating Arvin into the Scheme.
- 3.2.7 The Secretary of State, on reviewing the Inspector’s report, did not favour this position. Instead, some 15 months after the inquiry, he determined that the CPO should be confirmed, subject to the omission of Phase 4. This modification to the CPO meant that Arvin’s objection was sustained, and the Secretary of State directed that the Council pay Arvin’s costs.
- 3.2.8 Delivery of Phase 4 will require acquisitions of key sites in future years to complete the existing outline scheme. The decision of the Secretary of State means that the Council and GLA, whilst not ruling out a further CPO on the Phase 4 lands, will continue to seek a negotiated solution to acquire those interests, and with the help of their developer partner, will look at options which include Arvin’s retention within a reconfigured scheme, if an appropriate solution can be agreed between the parties.
- 3.2.9 Provision was made in the agreements between the Council and GLA for pooled overage funding to acquire sites in Phase 4, when this comes on-stream, and should it be necessary for the Council to consider forward-funding an acquisition in Phase 4, this would be with the proviso that overage would reimburse costs and would be subject to Mayoral approval. Future Phase 4 acquisitions are not within the scope of this report. However it is currently forecast that overage will be sufficient to fund the acquisition of Phase 4 interests, in addition to reimbursing much of the Council’s other capital investment funding.

3.2.10 Some 30 of the 45 leasehold and freehold residential properties across the scheme area have been acquired by the Council, and the confirmed CPO means that the Council is assured of securing possession of the remaining private properties within Phases 2/3 when needed. Officers are in the process of finalising possession of the Phase 2 site, ready for handover to Swan in late 2016. This follows successful tenant decants, negotiated settlements and CPO vesting for that area.

3.2.11 Swan's "Homeswap" option means that resident home owners are able to use the equity they receive from the sale of their existing home (including their statutory home loss payment) to buy an equivalent share of a new Swan property, transferring any existing mortgage, at no extra cost for their move: the difference in value between the share the owner buys at day one, and the full market value of the new property, is initially held by Swan, and then transferred to the owner in 7 annual increments, free of charge: thus after 7 years transferring resident owners acquire 100% of their new property, subject to any outstanding mortgage. This on-site provision for home owners, like that for tenants, was important to secure the support of the local community.

3.2.12 To date 11 resident owners have opted to move to a new Swan home and up to 3 are expected to do so from Phase 3. The remaining owners in Phase 3 have been able to remain in situ until their homes are purchased by the council, by 2018/19, either via CPO vesting or negotiated settlements. Where properties are vested without final settlements being reached - for example with some absentee owners - these may have to be dealt with at the Lands Tribunal in the future and funds are held ready for this.

3.3. Council Funding

3.3.1 To date the Council has spent c. £13.416 million and the GLA c. £19 million. The Council initially allocated some £14.5 million capital resources to this project, dating back to 2008, for diverse set-up and enabling costs to meet its responsibilities. The funding was earmarked from the following sources:

<u>Cabinet – 5th March 2008:</u>	
Capital Receipt re St Mathias Site	£ 1.500 m
<u>Cabinet - 1st July 2009:</u>	
Capital Receipts	£ 9.000 m
Section 106 - affordable housing and associated income	£ 1.500 m
Housing & Planning Delivery Grant	£ 0.500 m
Mainstream HRA Capital Programme	£ 2.000 m
	£13.000 m
Total Resources	£14.500 m

3.3.2 Previous Cabinet approvals are summarised below:

Date	Cabinet Approval
5 March 2008	Directed use of £1.5 million capital receipt to cash-flow initial leaseholder buyouts.
1 July 2009	Approved a further £13 million of capital resources to fund land assembly, including the buy-out of residential leaseholders / freeholders in the scheme area, and the acquisition of a relocating health centre to facilitate expansion of the neighbouring Woolmore school.
10 March 2010	Agreed to pay half the procurement and design/outline planning costs - shared with the HCA (which preceded GLA) - within the existing capital budget, as no further funding was available at that time. It was reported that the full costs of decanting and residential acquisitions might not be containable within the capital budget, and that further funds might need to be identified in due course.
9 February 2011	Delegated authority to the Director of Development & Renewal and the Assistant Chief Executive (Legal) to finalise contract terms with Swan after a competitive procurement process, and to determine the acquisitions and CPO strategy. The Council and HCA had agreed to acquire land interests within their respective freehold ownerships. A Council decant strategy was agreed for Phases 2/3, to match the construction timeline. It was noted that provision would also need to be made within the Housing Revenue Account to fund decant costs (anticipating that allocated capital resources would not be sufficient to fund all the enabling activities required).
25 July 2012	Approved a strategy for a single CPO, to be vested in phases. The necessity for the CPO was set out. The efficiency statement explained that expenditure for land assembly and CPO was essential to deliver the overall scheme and its associated benefits. Financial advice was that costs for property acquisitions could increase, but that overage would mitigate higher project costs should these arise.

The total development cost of the Blackwall Reach project is £430 million, predominantly met by the developer. The Council's allocated capital budget of £14.5 million has funded the Council's share of costs from 2008 to date, but needs to be refreshed in 2016/17 to fulfil ongoing commitments and expenditure this year, and for future years. In anticipation of this, as part of the 2016/17 budget process the earmarking of £4.5 million of Housing Revenue Account capital resources to finance additional land assembly costs was approved.

3.3.3 The Council's expenditure on the project from 2008 to 2016 totals c. £13.416 million, made up of:

£0.954M: tenant decant costs
 £0.900M: site acquisition for school extension
 £8.114M: land assembly including acquisition of residential properties and Council CPO costs
 £3.448M: master-planning, design, procurement, legal, engagement / consultation, specialist support, project staffing/monitoring

TOTAL
£13.416M: actual expenditure 2008-2016

3.3.4 Estimated potential future costs from 2016 to 2023 include:

£5.820M: remaining residential property acquisitions (with allowance for inflation to 2019, statutory and good practice disbursements)
 £0.330M: decant and security costs
 £0.700M: legal, specialist support, project management and monitoring

TOTAL
£6.850M: projected capital expenditure 2016-2023

3.3.5 There are two budgetary implications;

- Firstly, with costs of more than £1 million anticipated in the next few months due to programmed activity, such as property acquisitions, cumulative project expenditure by the Council is likely to exceed the original approved budget of £14.5 million during 2016/17.
- Secondly, overall forecast expenditure from 2008 to 2023 is now c. £20.266 million (excluding any future interim funding for land acquisitions in the Phase 4 area, see paragraph 3.2.9 above). Therefore from 2016/17 there will be a gap of c. £5.766 million between the original budget of £14.5 million and the £20.266 million that is needed to meet the Council's long-term obligations.

3.3.6 The reasons for this relate primarily to increased / unforeseen costs since 2009, projected up to 2023/24, as follows:

Amount	Reason
£2,810,000	Increased property values, statutory payments, fees and Stamp Duty. (1)
£1,990,000	Projected costs over the lifetime of the project (2009 to 2024) to deliver the programme, including both internal and external project management and specialist support. (2)
£550,000	Additional costs to deliver the CPO, (see 3.2.3-3.2.8 above).
£180,000	Increased tenant decant costs and provision for block security.
£230,000	Additional costs of procurement, planning consultants and resident engagement 2009 to present.

1. 20% property cost inflation assumed in 2016-2019.

2. Estimated £160,000 may be reclaimed from the developer for project monitoring.

- 3.3.7 Provision has already been agreed for £4.5 million to cover much of this gap, as part of the 2016/17 budget approved by the Mayor and then at Full Council in February 2016. In the longer term, but before sufficient overage comes on-stream, there will be a residual shortfall in the region of £1.266 million: approval is requested to set aside funds of this amount and approve the expenditure.
- 3.3.8 The total cost of £20.266 million equates to 4.7% of the scheme value of £430 million. Given the extensive outputs from the scheme including increasing local rented stock by almost 300% and retaining social rent, wider planning contributions of £14.5 million and the overage which is anticipated from 2019 onwards, it is considered that the Council's funding contribution continues to represent good value for money.
- 3.3.9 Benefits have also accrued to the Council through the use of the properties that have become void following the decant of secure tenants and buy-outs of private owners, as much-needed temporary accommodation for homeless clients (non-secure tenants / NSTs) by the Housing Options Service. Through the use of its own assets, the Council has generated rental income to both the Housing Revenue Account and the General Fund. Rental charges are set at a level above social rent but below the temporary accommodation subsidy rate, meaning that, assuming management and maintenance costs do not change, the HRA benefits from letting at these higher rents which is preferable to leaving the units void. The General Fund also gains because the rents are fully covered by tenants' payments and housing benefit.
- 3.3.10 Currently in 2016/17 some 80 of the Blackwall Reach units are let at rents below the temporary accommodation subsidy rate, but above social rent, generating an average income per dwelling of £10,900 per annum for the HRA, which is approximately £4,800 per annum more than the equivalent social rent income. In addition, approximately £6,000 per annum is generated for the General Fund in respect of properties which would otherwise have been void. Using these properties has the further benefit of avoiding a potential cost to the General Fund in the form of a loss in Benefit subsidy which could arise for each placement made not using such temporary accommodation. This subsidy loss represents the difference between the statutory Housing Benefits payments that the Council must make and the subsidy receivable from the Government which is subject to a cap. In the case of temporary accommodation, this could range between £3,500 and £11,000 per applicant per annum depending on the type of accommodation used, with bed and breakfast costs at the upper end of this range.
- 3.3.11 The number of Blackwall Reach void homes used as temporary accommodation by the Housing Options service, and the indicative income from these (at current values), is set out in the table below:

YEAR	NST UNITS	HRA INCOME	GENERAL FUND INCOME	POTENTIAL AVOIDANCE OF NET COST TO GENERAL FUND HOUSING BENEFITS BUDGET
2014/15	53	£577,700	£318,000	£186,000-£583,000
2015/16	73	£795,700	£438,000	£255,500-£803,000
2016/17	80	£872,000	£480,000	£280,000-£880,000
2017/18	80	£872,000	£480,000	£280,000-£880,000
2018/19	80	£872,000	£480,000	£280,000-£880,000
TOTAL		£3,989,400	£2,196,000	£1,281,500-£4,026,000

- 3.3.12 *Income and savings 2014 to present:* as an indication of accrued savings since 2014, approximately £1.373 million has been received by the HRA through the use of Blackwall Reach non-secure tenancies, and £756,000 has been credited to the General Fund. In the same period, a subsidy loss of between £441,000 and £1.386 million has potentially been avoided. This might have arisen had more expensive outsourced temporary accommodation had been used instead of the Blackwall Reach properties.
- 3.3.13 *Income and savings 2014 to 2019:* based on current values, the table above illustrates that in total, between 2014 and 2019, it is envisaged that approximately £3.99 million of rental income will be received by the HRA through the use of the voids at Blackwall Reach, with a further c£2.196 million being credited to the General Fund, making a total income of £6.185 million. By way of comparison, average council rents in the same period would generate approximately 36% of this projected income (c. £1.44 million). In the same period, between £1.28 million and £4.03 million of unsubsidised benefits costs may be avoided by not using alternative outsourced temporary accommodation.
- 3.3.14 Utilising empty properties in this way enables Housing Options to provide affordable temporary accommodation for households that need to be in the borough for employment, education, social, welfare or health reasons. Maintaining occupancy levels in the blocks also reduces the risk of squatting and other forms of crime and anti-social behaviour, making the homes safer for the remaining secure tenants and home owners.

3.4 Overage

- 3.4.1 Present forecasts anticipate that overage should in due course reimburse much of the Council's capital expenditure on this project.
- 3.4.2 Overage is calculated on each phase separately. Phase 1A comprised rented/intermediate tenures to enable early decant of tenants and home-owners from Robin Hood Gardens, and so did not yield overage. For Phases 1B, 2, 3 and 4, overage is calculated as the surplus sales revenues after costs are deducted. Once net sales revenues reach the threshold (i.e. when they equal aggregate costs including developer profit) overage becomes payable on each sale thereafter. Overage will start to flow into the project from 2019, once Phase 1B has completed.
- 3.4.3 The formula for allocating overall overage between the Council and GLA reflects each partner's relative contribution. After direct reimbursements towards sums spent, firstly by GLA on the initial development framework (c £0.950M), and then by both client partners on procurement / design / planning (c £1.05M each), the next £32M of overage is to be split 60% GLA : 40% Tower Hamlets, and all further receipts above this will be split 50%:50% between GLA and Tower Hamlets.
- 3.4.4 Whilst the economic recovery has increased building costs, and the Council has had to pay more than envisaged to undertake its land assembly, forecast sales values of new homes have exceeded and are likely to continue to outstrip these costs. The Council's share of projected overage for the scheme is currently anticipated to be in excess of £20 million, but this will be subject to market fluctuations and to any future viability testing, for example if the developer's costs rise significantly there are

contractual mechanisms for this to be reviewed jointly by the partners and recalibrate overage if necessary.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 This report outlines the progress on the Blackwall Reach Regeneration scheme and seeks the approval of an increased capital budget to enable the completion of the programme to acquire vacant possession of the residential properties in Robin Hood Gardens.
- 4.2 In July 2009, Cabinet agreed that £13 million be allocated to fund the costs of land assembly and decants with regard to the Blackwall Reach Development and the Woolmore Street Medical Centre. This was in addition to a £1.5 million capital receipt that had already been recycled into the scheme under the conditions of the disposal of the St Mathias site to the HCA. The funding sources earmarked for the project are shown in paragraph 3.3.1.
- 4.3 As at May 2016, £13.4 million of the £14.5 million allocation had been utilised, leaving a balance of approximately £1.1 million available. A breakdown of the expenditure incurred is shown in paragraph 3.3.3.
- 4.4 In order to complete the project it is anticipated that a further £6.850 million of expenditure will be required, as shown in paragraph 3.3.4. This will bring the total expenditure to £20.266 million. The major reason for the revised cost of the scheme is the significant increase in property values since 2009 when the project and budget were first approved. However, this has also given rise to a large increase in the overage receipts that are likely to be generated by the project (see paragraph 3.4.1 to 3.4.4 and 4.7 below).
- 4.5 In addition to the already approved capital estimate of £14.5 million, resources of £4.5 million were set aside for additional site assembly costs as part of the 2016/17 to 2018/19 capital programme that was approved by Council on 24th February 2016. This brought the total resources that are earmarked for the scheme to £19.0 million, meaning that a balance of £1.266 million (rounded to £1.3 million) will be required to finance the full expenditure need. It will be necessary to forward fund these additional costs from within accumulated Housing Revenue Account (HRA) revenue reserves in advance of any overage receipts being generated to replenish the balances. This assumption has been incorporated within the HRA Medium Term Financial Outlook report that is considered elsewhere on this agenda.
- 4.6 As outlined above, the Council is entitled to a proportion of the increased values that the developer may realise from the market sales on the redeveloped site. It is likely that these overage payments will be significant, with projections being that overage will exceed £20 million (as set out in paragraphs 3.4.1 to 3.4.4). It must be stressed however that these are only estimates at this stage and the entitlement will not materialise until sales commence in 2019. While none of these resources will be included within either the Council's General Fund Medium Term Financial Plan or the 30-year HRA Business Plan model until they are actually generated, the figures indicate that the additional funding of £5.8 million that the Council will need to invest to complete the purchases at Robin Hood Gardens will be fully recovered through overage, with significantly more resources likely to be generated in the longer term. It is anticipated that any additional overage payments will be available to fund either

General Fund or HRA capital expenditure. Decisions on the use of overage will be subject to future approval by the Mayor in Cabinet.

- 4.7 The Blackwall Reach project has a proposed final stage (Phase 4) which will also require site acquisitions in order to complete the overall scheme, and discussions are taking place with the GLA to agree the responsibilities of each party in relation to this element of the project. A future report will be submitted to the Mayor in Cabinet which will contain proposed funding solutions for land assembly (see paragraph 3.2.9). At this stage no financing has been set aside for Phase 4 of the project which may also become dependent upon future overage receipts.
- 4.8 The Council's Housing Options service is currently using vacant units in Robin Hood Gardens to provide temporary accommodation for homeless clients (see paragraphs 3.3.9 to 3.3.14). This avoids the need for the service to utilise alternative, more expensive accommodation (e.g. Private Licensed Accommodation, Bed and Breakfast and Nightly Lets) and benefits the Council through the generation of rental income for both the HRA and the General Fund – effectively the HRA lets the properties to the General Fund for use as temporary accommodation, with the properties then being let in turn to homeless clients. Rental charge levels are set so that the Government's temporary accommodation benefits cap levels are not exceeded meaning that the council will avoid the need to incur unsubsidised housing benefits charges in respect of these clients. A further advantage of occupying the properties on a temporary basis is that security costs are avoided, although the Council will incur any necessary management and maintenance costs.
- 4.9 It should be noted that although the Council is using the vacant properties to place homeless clients, these are only relatively short term arrangements with the Council being likely to require full vacant possession of the block during 2019. Arrangements will therefore need to be made to ensure that alternative temporary accommodation is available to replace the Blackwall Reach units in the longer term.

5. LEGAL COMMENTS

- 5.1 The report sets out the recommendations of the Corporate Director Development and Renewal in relation to the Blackwall Reach Regeneration Scheme.
- 5.2 By decision of 5 March 2008, the previous Mayor in Cabinet approved the allocation of initial capital resources to fund land acquisition, decants and assembly in order to facilitate the redevelopment of the Blackwall Reach area. Additional funding was then secured by a subsequent Cabinet decision of 1 July 2009, part of which has been used and committed to secure confirmation of, and to give effect to, the modified London Borough of Tower Hamlets (Blackwall Reach) CPO 2013.
- 5.3 The Council entered into a Principal Development Agreement with its development partners, GLA and Swan Housing Association, on 19 April 2011, which was amended by further agreement dated 10 December 2013 (the "PDA"). The PDA commits the partners to delivering the scheme, including inter alia such matters as compulsory purchase and land assembly.
- 5.4 The report seeks approval for an increase in the capital budget for the scheme, which it is anticipated will be required for the period 2016-23. The report describes in detail the need and reasons for the further funding.

- 5.5 As a matter of public law, the Council may only commit itself to expenditure where there is sufficient funding in place. Accordingly, in order for the Council to carry out its future commitments under the PDA without delay to the scheme, it is considered necessary for the additional capital budget to be made available. It is anticipated that, subject to fluctuations in the housing market and other contractual mechanisms, the overage provisions within the PDA and Building Agreements will generate sufficient income to off-set these costs from 2019 once Phase 1B of the scheme has completed.
- 5.6 The report explains that the London Borough of Tower Hamlets (Blackwall Reach) CPO 2013 was confirmed, subject to modification, by the Secretary of State in 2015. The effect of the decision is the omission of the Phase 4 element from the CPO that the Council had made in 2013. Notwithstanding this, there remains a need to acquire this area of land in order to build out the full scheme and it is hoped that positive negotiations with the proprietors will facilitate this. Failing this, a further CPO may be required in the future.
- 5.7 Section 3 of the Local Government Act 1999 requires best value authorities, including the Council, to “make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness”. It is considered that the use of Council resources, within a model that delivers significant housing, educational and community provision for the area, while aiming to recover costs, will satisfy that duty. This is further considered at paragraph 7 of the report.
- 5.8 There are no direct equalities considerations arising from the decisions in this report. However, when the Council is considering its approach to the scheme, it must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector equality duty). This is further considered at paragraph 6 of the report.

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The expenditure described is incurred in relation to the delivery of Blackwall Reach regeneration project, which contributes to the objectives of reducing inequality, ensuring community cohesion and strengthening community leadership. The scheme will substantially increase housing of all tenures in the area, with housing options to safeguard affordability, largely preserving the existing community as beneficiaries whilst creating a new socio-economic infrastructure for the area: i.e. new health, education, community, retail and other amenities to improve well-being for local residents. A new Blackwall Reach Trust will have funds generated to resource community interests and activities.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The Blackwall Reach project aims to achieve best value in delivery through the pooling and best use of land assets between the Council and its partner, GLA, and other enabling investment, to enable comprehensive regeneration, within a financial model that will off-set costs as far as possible through substantial overage. The scheme will cost £430 million, set against a Council enabling contribution £20.266 million (i.e. 4.7% of the overall cost, most of which is met by the developer). The main value of the project – and the council's enabling contribution - is the near 300%

increase in affordable rented homes for local people in housing need, along with substantial environmental improvements and other community benefits..

- 7.2 The expenditure set out is essential to deliver the overall scheme and its associated benefits. The Council has been predominantly successful in facilitating land assembly for Phases 1b, 2 and 3 of the scheme, and as a result the scheme will progress and substantial numbers of new homes are being built for local people.
- 7.3 Value is also being demonstrated by the regeneration project generating up to £14,480,456 in S106 planning gain contributions for the area in addition to other benefits of the scheme. This funding has already contributed to early delivery of a new expanded local school. Some 207 Council rented homes are being replaced with up to 679 new affordable homes (including 561 homes for rent at traditional social rent levels) and 45 private homes with up to 896 new ones, including replacement homes for displaced resident owners, at nil extra cost. The council has also been ensuring best value during the scheme delivery by securing substantial additional income from properties becoming void following the decant of secure tenants and buy-outs of private owners. These are utilised by the Housing Options service as temporary accommodation for homeless clients with resultant financial advantages for the HRA and the General Fund.
- 7.4 Had the regeneration project not been possible, an alternative sustainable solution would have been required for the Robin Hood Gardens Estate, which is deteriorating badly. Decent homes works for Robin Hood Gardens alone were estimated in 2008 as potentially costing c. £21 million, and may have also required at least a temporary decant of the 214 homes, without replacement homes being provided in the way that is possible in the present regeneration project. Additionally the cogency of approach and significant benefits from shared land use – the Council and GLA together held more than 80% of the freehold land – has made a comprehensive solution possible that could not otherwise have been achieved.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 The action requested in this report will not directly have implications for the environment. However the overall regeneration, in pursuit of which this expenditure is being incurred, will have three key sustainability benefits.
- 8.2 Firstly, the housing stock being redeveloped was designed to an environmental performance consistent with standards for build in place at the time the properties were built (mainly circa. 1970). They are being replaced by homes and buildings built to a far higher standard of environmental performance, which will mean they are far more cost effective to run, thereby reducing the potential for fuel poverty amongst low income households that are expected to occupy the new affordable homes within the scheme, including those being rehoused from the properties to be replaced. All the new homes will meet a minimum standard (Code of Sustainable Homes Level 4) and there may be scope to deliver a higher standard later in the project. The scheme also seeks to facilitate better approaches to energy conservation and waste recycling.
- 8.3 Secondly, a key element of the sustainability agenda is using land in urban environments to maximum effect. This both maximises the value of the land in strategic planning terms, and reduces pressure to build on green-field sites.
- 8.4 Thirdly the proposals involve the development of a high quality environment that will encourage bio-diversity as well as providing recreation space and amenity.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 The action requested addresses the risk that the Council's allocated capital funding could be exhausted before it has completed its contractual obligations. Therefore the additional provision requested will mitigate against this scenario.
- 9.2 Robust financial modelling has been carried out and it is anticipated that overage will be generated on the private sales, which will help mitigate risks to overall project costs. It is reported that a sum of £4.5 million has already been set aside as part of the 2016/17 approved budget process, which ensures that the Council's commitments can be met after 2016/17, when the original capital estimate is exceeded. In the longer term, overage should reimburse the Council for its capital investment, but the action requested will ensure that the Council has adequate dedicated funds to complete its enabling role and to administer the project, with its partner the GLA, to ensure that the outputs – including overage – are achieved.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 The regeneration and redevelopment of the area will reduce the current high incidence of crime and anti-social behaviour, deriving in part from the poor physical condition of the current housing and environment, by improving the social, economic and environmental well-being of the local residents.
- 10.2 Good design will improve safety and security across the area for example through developing previously derelict or underused sites, better overlooking of shared spaces, community engagement in management, new routes through the area, local housing office.

11. SAFEGUARDING IMPLICATIONS

- 11.1 There are no significant implications arising from these specific recommendations.

Linked Reports, Appendices and Background Documents

Linked Report

- “Approval for costs in relation to CPO Public Inquiry (Arvin and sons Ltd) – exempt agenda, Cabinet 26th July, 2016”.

Appendices

- NONE

Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012

- NONE

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