


## Executive Decision Report

<b>Decision maker</b>	Full Cabinet  Date of decision 21 March 2013  Forward Plan reference: KD03941	 <small>THE ROYAL BOROUGH OF</small> <b>KENSINGTON AND CHELSEA</b>
<b>Report title (decision subject)</b>	<b>EDENHAM WAY – REQUIREMENT FOR AFFORDABLE HOUSING AND WIDER REGENERATION</b>	
<b>Reporting officer</b>	Laura Johnson, Director of Housing Michael Clark, Director of Corporate Property and Customer Services	
<b>Key decision</b>	Yes	
<b>Access to information classification</b>	Public	

## **1. EXECUTIVE SUMMARY**

The purpose of this report is to seek guidance on the high level outcomes for the development of the Edenham Way site. The site is held partially in the General Fund and partially the Housing Revenue Account.

## **2. RECOMMENDATIONS**

- 2.1 That the basis for allocating any capital receipts from the sale of the land is apportioned in line with the area ratio ie 60% General Fund and 40% HRA.
- 2.2 That the Cabinet note that this report is part of a wider strategy to enable the required financial investment for Trellick Tower and a detailed report on this issue will be presented to Cabinet.
- 2.3 That Cabinet decide on the amount of affordable housing that is required for the Edenham Way site, and that the recommended tenure mix for the site be 50% Market Sale and 50% Affordable, with the 50% Affordable comprising 30% Affordable Rented homes in line with the Council policy on Affordable Rent levels, and 70% Intermediate homes which could be either shared ownership or Homebuy or a mixture of the two.
- 2.4 That Cabinet note that this approach will decrease the market value of the GF portion of the site, but as this decrease is less than £2m Cabinet approval only, rather than Secretary of State consent, is required to proceed.

## **3 REASONS FOR DECISION**

Seeking a mixed tenure development could result in the loss of value of the land in excess of £2 million and therefore Cabinet approval would be required. At this stage, an in principle agreement on the percentage of Affordable Housing is sought. A detailed report will be presented to Cabinet for formal approval once the exact terms for the development have been negotiated.

## **4 BACKGROUND**

- 4.1 The Edenham Way site lies in the north of the Royal Borough in Golborne Road, between Trellick Tower and Elkstone Road and covers a total of 5,920 sq m. The land is held partially in the General Fund (GF) and partially in the Housing Revenue Account (HRA). The HRA portion of the site covers 2,395 sq.m and the GF portion covers 3,525 sq.m.
- 4.2 A site plan showing the site and the positioning of both the GF and HRA land is shown in Appendix A.

- 4.3 In May 2012, it was agreed that the Planning Department would produce a Supplementary Planning Document (SPD) for the site and the neighbouring Golborne Road area which would set the parameters for redevelopment of the Edenham/Trellick site.
- 4.4 The site is situated at the base of the Grade II\* listed Trellick Tower which will limit the quantum of development achievable.
- 4.5 Given the very sensitive location of the site Levitt Bernstein Architects have been commissioned to produce an architectural study which will be used to inform the SPD.
- 4.6 The optimum development potential of the site will be clarified through this process, along with an understanding of how this development can act as a catalyst for regeneration of the surrounding area.
- 4.7 The study has involved extensive consultation with residents and local stakeholders and is anticipated for completion in February, 2013.

## **5 PROPOSAL AND ISSUES**

- 5.1 It is accepted by both Corporate Property and the Housing Service that the sites generate marriage value when combined, and a comprehensive joint development of both sites would produce the best result for the area.
- 5.2 The General Fund and the HRA have differing statutory obligations and differing policy directives to meet from the assets that they hold. In addition each are subject to restrictions regarding how any capital or revenue generated from assets can, or is desired to, be spent.
- 5.3 In order to progress the development of the site, a decision is required on the level of affordable housing that the Council holistically wishes to pursue on this site. The decision reached will impact on the procurement route chosen, the programme for delivery and the level of capital received.
- 5.4 The HRA portion of any capital receipt could contribute towards funding affordable housing in other parts of the borough, or for addressing the backlog maintenance to Trellick Tower.
- 5.5 The GF portion of any capital receipt could be ring-fenced for improvements into the Golborne/Trellick area in line with the Council's wider vision for the area and the Core Strategy.
- 5.6 Clearly the larger the capital receipt obtained, the more capital the Council will have for regeneration and restoration purposes both in the HRA and GF.

- 5.7 However, a larger capital receipt also equates to less affordable housing being delivered on this site. There are limited opportunities for developing affordable housing in the Borough, largely due to the availability of suitable sites.

## **6 OPTIONS AND ANALYSIS**

- 6.1 The HRA aims to maximise the delivery of affordable housing whilst the GF aims to maximise the commercial value of its sites, which tends to prioritise market housing, and these two principles are at odds. The options available are as follows:
- 6.2 Open market disposal: the site would be openly marketed and the optimal affordable housing element negotiated through a viability assessment as part of the planning approval process. Recent experience on similar sites in the Borough suggests that this is likely to result in a relatively small percentage of affordable housing being achieved.
- 6.3 Specify affordable housing percentage: the percentage of affordable housing required by the Council for this site would be specified. The Council could specify both the percentage of market to affordable housing, and could further specify the details of tenure for the affordable housing element.

## **7 CONSULTATION**

- 7.1 There has been no formal consultation on the issue of housing tenure and mix for the site or the overall financial parameters. Consultations with residents regarding other aspects of the development of the site has elicited a number of ad hoc comments that there is an expectation that any income generated through the capital value of the site will be used for fund repairs to Trelick Tower.

## **8 EQUALITY IMPLICATIONS**

- 8.1 The Core Strategy and accompanying SHMA have been used to determine the needs for planning purposes the mix of housing. This includes the need to provide a higher percentage of intermediate housing in wards with high concentrations of existing social housing. A full analysis will be undertaken as part of the detailed consultation and negotiation on the site, but at present the suggested principle is compliant with planning policy which is consistent with housing needs across the borough. An indicative EIA assessment is shown in Appendix Two.

## **9 LEGAL IMPLICATIONS**

- 9.1 The GF and HRA are subject to differing statutory requirements with regard to the disposal of land.
- 9.2 For a disposal of GF land, Section 123 of the Local Government Act 1972 gives a local authority the power to dispose of land using whatever method it chooses as long as it meets its overriding duty to obtain the best consideration that can be reasonably obtained. The duty to seek best consideration is subject to certain exceptions however specific consent from the Secretary of State must be obtained to dispose of land for less than best value where the difference between the market value of the land to be disposed of and the consideration accepted is £2 million or more. An in principle decision by Cabinet would therefore be required to follow the affordable housing led approach and if the loss of value was £2 million or more it would be necessary to seek permission from the Secretary of State for the disposal.
- 9.3 For HRA land Section 32 of the Housing Act 1985 provides the relevant statutory framework, and the General Housing Consents, 2012 apply. Section A3.1.1 gives a local authority the power to dispose of land for a consideration equal to its market value. In addition, a Local Authority can transfer land to an RSL through the provisions of Section 25 of the Local Government Act 1988. This power is limited to the transfer of no more value than £10million in any one year and the purpose of the transfer must fall within the following categories:
- land for development or access, easements and rights;
  - dwelling houses for refurbishment;
  - financial assistance for prevention of homelessness; and
  - loans to RSLs.

## **10 FINANCIAL AND RESOURCES IMPLICATIONS**

- 10.1 If the Council were to proceed with a market led scheme for this site, the level of affordable housing delivered would be subject to viability testing through the planning process. Current planning policy seeks the maximum reasonable amount of affordable housing on site subject to viability. Recent schemes in the borough have delivered a relatively small proportion of Affordable Housing. The figure used for the purposes of the appraisals which follow is a 30% Affordable Housing component. It should also be noted that for ease of reference, calculation have been carried out on the basis of unit numbers. Planning requirements are usually expressed in measures of floorspace.

Corporate Property commissioned three site appraisals to assess residual land value in order to establish whether or not marriage value existed between the sites based on the following scenarios:

- Scheme 1 – General fund site only
- Scheme 2 – Combined sites
- Scheme 3 – HRA site only

For illustrative purposes the appraisals were undertaken on 2 bases:

1. 100% market accommodation
2. 70% market accommodation and 30% affordable housing

The outcomes of the indicative appraisals are as per the table below:

Site	No of units	Tenure	Residual Land Value
Scheme 1	62	100% market	£6.8m
		30% affordable	£3.1m
Scheme 2	102	100% market sale	£11.7m
		30% affordable	£5.3m
Scheme 3	36	100% market	£4.1m
		30% affordable	£1.5m

10.2 These appraisals show that combining the sites results in marriage value of circa £700,000 and the delivery of an additional 4 units.

10.3 The value attributable to each fund can be split on a proportion of site value basis, or a proportion of area basis.

1. On a proportion of site value basis the ratio is £3.1m (GF): £1.5m (HRA) which equates to 67%:33%.
2. On a proportion of area basis the ratio is 3,525 sq.m (GF): 2,395 sq.m (HRA) or 60%:40%. This basis has been adopted in this report.

10.4 Additional appraisals were carried out on the combined site (Scheme 2) based on the provision of 50% affordable housing on the following bases:

1. 50% affordable housing all of which is social rented, returning a residual land value of **£-781,000** (i.e. not viable);
2. 50% affordable housing split of which 70% social rented and 30% is intermediate, returning a residual land value of **£877,000**.
3. 50% affordable housing split of which 70% is intermediate, 30% is affordable rented, returning a residual land value of **£3m**.

10.5 The key points to take from the above appraisals are that the combined site has the potential to deliver the following:

	Market units	Affordable units	<b>Total capital</b>	HRA Portion (40%)	GF Portion (60%)
Market led scheme	71	31	<b>£5.3m</b>	£2.12m	£3.18m
Social Rented Affordable housing led scheme	51	51	<b>£0.88m</b>	£0.35m	£0.52m
Intermediate and Affordable Rented Housing Led scheme	51	51	<b>£3m</b>	£1.2m	£1.8m

**Market housing led** - A market led scheme has the potential to provide 71 market units and 31 affordable units across both sites, and £5.3m in capital to be split proportionally between the HRA and GF.

**Social rented affordable housing led** - An affordable housing led scheme has the potential to provide 51 affordable units (70% social rented and 30% intermediate) and 51 market units, and £0.88m in capital to be split between the HRA and the GF.

**Intermediate/affordable rent** – An affordable rent and intermediate scheme has the ability to deliver the same unit numbers (30% social rent and 70% intermediate) plus 51 homes for market sale and provide a £3m capital receipt to be split between the HRA and GF.

10.6 The above appraisals assume that such a scheme would be provided through a ‘for profit’ developer. If such a development were to be lead by a Housing Association it may be possible to achieve a higher capital receipt as they would expect both a lower profit margin and to achieve this return over a much longer period, usually a 30 year period and if there was an Affordable Rent component to the scheme they may be able to access grant from the HCA/GLA.

10.7 One of the biggest threats to the Council’s budgets over the coming years is from the increased cost to the Council of temporary accommodation due to a combination of changes in benefits and the increasing difficulty of procuring temporary accommodation. TA is becoming increasingly difficult to source, particularly within the Royal Borough and neighbouring areas. We have successfully sourced temporary accommodation across Greater London but due to similar pressure on all Local Authorities, this too is likely to become

increasingly challenging. The number of homeless households placed in unsuitable bed and breakfast accommodation is therefore likely to increase. Providing additional affordable housing will increase the opportunities for those in temporary accommodation. This could either be directly through being made an offer of one of the new homes, or indirectly through an existing tenant in social rented accommodation moving into a shared ownership property and thereby creating a vacancy.

- 10.8 A Strategic Asset Management paper specifically on Trellick Tower will be coming back to Members in order to set out the plan for funding the necessary ongoing and future maintenance of Trellick Tower. Early findings from the work currently being undertaken on the Asset Management Review have shown a negative net present value (NPV) of £48,000 per unit in Trellick Tower over the next 30 years. Trellick Tower thereby presents the Council with both a significant financial liability but also a potential financial asset due to its listed status. Units in Trellick Tower could either be sold or let at Market Rents and provide a valuable income stream which could be reinvested into carrying out the major works required to the block. To enable us to address the considerable investment shortfall we see the development of affordable and intermediate housing in this location as part of the solution to enable us to decant some residents into the new affordable housing which would allow us to sell or rent privately the resulting voids. In order to take the Edenham Way development forward a decision on the tenure mix is required and we see the development of Edenham for a mix of private and affordable housing as part of the overall asset management of Trellick.

## 11 PLANNING

- 11.1 The RBKC Core Strategy and Proposals Map were adopted on 8 December 2010 and are the primary documents when considering any planning application. The Core Strategy outlines the key priorities for the area:
- **Keeping life local** – the Council will support improvements to social and community uses as a result of any major development, particularly health;
  - **Fostering vitality** – the Council will support initiatives which will draw visitors north up the Portobello road to Golborne Road;
  - **Diversity of housing** – the Council would support private housing schemes on the Edenham Way site, where much of the existing housing is predominantly socially rented stock.
- 11.2 Policy CP6 outlines the Council's proposed delivery for these priorities and states that:



*'The Council will ensure the long-term regeneration of Golborne/Trellick by requiring development to positively contribute to the regeneration of the area and resisting development which prejudices long term regeneration. Proposals which increase footfall that would aid the viability of the market will be supported.'*

11.3 Policy CA3 states the site will be redeveloped in order to help the restoration of Trellick Tower, and designates the site for:

- a) A minimum of 60 residential units to fund regeneration;
- b) Improvements to social and community facilities and housing, including health provision.

11.4 The reference to the restoration of Trellick Tower arises from the acknowledged need for substantial capital investment in this Grade II\* listed building, which is fully occupied and in HRA ownership. An option to fund the required investment in Trellick is being explored which sees new affordable units developed on the Edenham Way site ring-fenced for transfers from Trellick Tower, allowing the Trellick units to be sold or rented at private sector rental levels to fund the necessary investment in the tower.

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