

**Report of Cabinet Housing & Regeneration Committee
(to Cabinet 21 October 2009)**

25 August 2009

Members:

*Cllr Richard Cornelius (Chairman)

Councillors:

* Melvin Cohen, LLB *Lynne Hillan
Mike Freer *Daniel Thomas

*denotes Member present

1. GRANVILLE ROAD ESTATE REGENERATION (Report of the Cabinet Member for Community Services – Agenda item 6)

The Committee having considered the Cabinet Member's report, outlining Phase 1 and Phase 2 of the regeneration, the importance of dovetailing and running the two phases in parallel and the various options being looked at to regenerate the estate through use of surplus land :

RESOLVED TO RECOMMEND –

- 1. That, having noted the financial procurement and partnership options to take forward Phase 2 of the wider regeneration of the Granville Road Estate, that Cabinet instruct officers to invite expressions of interest on the options, in order to unlock early delivery and achieve best consideration for the Council.**
- 2. That Cabinet authorises the commencement of formal procurement and market testing of the options arising from 1.1 above and in parallel with the procurement process for Phase 1 refurbishment of the tower blocks.**
- 3. That Cabinet instructs the Director of Planning, Housing and Regeneration to fund and procure the production of a Masterplan to guide the development and regeneration of the wider Granville Road Estate. The Masterplan will be reported to Cabinet or Cabinet Resources Committee for member approval.**
- 4. That Cabinet instructs the Director of Planning, Housing and Regeneration to report back to a future Cabinet or Cabinet Resources Committee to seek authority to commence Phase 2 of the wider regeneration in accordance with the chosen financial and procurement model.**

Attachment to agenda item 10

Meeting	Cabinet Housing and Regeneration Committee
Date	25 August 2009
Subject	Granville Road Estate Regeneration
Report of	Cabinet Member for Community Services
Summary	Following a successful funding award for the three tower blocks refurbishment going forward the next stage of the Granville Road Estate wider regeneration programme is outlined. As Phase 2 this includes a formal recommendation to Cabinet to consider options for innovative financing and procurement models, including a potential Local Asset Backed Vehicle model (LABV) to unlock the earliest delivery of the Estate's potential to deliver a high quality place and new and improved homes, in accordance with the adopted Planning Brief 2008.

Officer Contributors	Stewart Murray, Director of Planning, Housing & Regeneration, Nicola Bird – Regeneration and Development Manager
Status (public or exempt)	Public
Wards affected	Childs Hill
Enclosures	Appendix A: Regeneration Estate Plan: Granville Road
For decision by	Cabinet (on recommendation by Cabinet Housing and Regeneration Committee)
Function of	Executive
Reason for urgency / exemption from call-in (if appropriate)	Not Applicable

Contact for further information: Pam Wharfe, Head of Housing and Environmental Health, 020 8359 6063 or Nicola Bird , Regeneration and Development Manager 0208 359 4862

1. RECOMMENDATIONS

1.1 That the Committee considers whether it wishes to make any recommendations in relation to this report to full Cabinet on 21st October 2009 including the following:

- That, having noted the financial procurement and partnership options to take forward Phase 2 of the wider regeneration of the Granville Road Estate, the that Cabinet instruct officers to invite expressions of interest on the options, in order to unlock early delivery and achieve best consideration for the Council.
- That Cabinet authorises the commencement of formal procurement and market testing of the options arising from 1.1 above and in parallel with the procurement process for Phase 1 refurbishment of the tower blocks.
- That Cabinet instructs the Director of Planning, Housing and Regeneration be instructed to fund and procure the production of a Masterplan to guide the development and regeneration of the wider Granville Road Estate. The Masterplan will be reported to Cabinet or Cabinet Resources Committee for member approval.
- That Cabinet instructs the Director of Planning, Housing and Regeneration to report back to a future Cabinet or Cabinet Resources Committee to seek authority to commence Phase 2 of the wider regeneration in accordance with the chosen financial and procurement model.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Cabinet Resources Committee, 31 October 2007 (decision Item 11), approved in principle sale of the specified lands on estate for residential development to fund works required to the tower blocks – subject to marketing and tendering.
- 2.2 Cabinet, 23 January 2008 (decision Item 7), approved the Planning Brief for the Granville Road Estate which included retention of the three taller tower blocks for major refurbishment and improvement assisted by unlocking new build potential on adjoining under-used land to provide new homes as part of a wider Estate regeneration scheme.
- 2.3 Cabinet Resources Committee, 5 March 2009 (decision Item 10), approved the demolition of Garth House and connected buildings following a fire in 2008.
- 2.4 Cabinet Resources Committee, 23 April 2009 (decision Item 6) approved the proposed allocation of £1 million of Growth Area Funding to assist the financial business case for the refurbishment of the three tower blocks and the wider regeneration on the Granville Road Estate.

- 2.5 Cabinet Housing and Regeneration Committee, 27 May 2009 (decision Item 7) Informed members on Land Asset Backed Vehicles (LABV) model and what council officers were doing in this area.
- 2.6 Cabinet Resources Committee, 30 July 2009 authorised the formal acceptance of the award of funding from the London Development Agency allocated from the London Mayor's Targeted Funding Stream to improve the three tower blocks and upgrade 179 homes on the Granville Road Estate and to undertake a parallel process for the wider estate regeneration and related procurement process.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 The Corporate Plan commits the Council to a priority of "More Choice, Better Value" by delivering value for money across Council services through better use of resources including assets. The proposal does this by bringing these under- utilised Council assets to the market's attention as potential development sites for the delivery of housing.
- 3.2 Under the relevant corporate priority, 'A successful city suburb', the tower blocks on the estate will be upgraded to bring them above the Government's Decent Homes standard in parallel with a wider regeneration scheme to enhance the "housing journey" and deliver an improved estate

4. RISK MANAGEMENT ISSUES

- 4.1 There is a risk that as the costs of Phase 1 are not fully known at this point and the grant funding is subject to time constraints. The progress of Phase 1 may impact on the funding position for Phase 2 whereby greater cross subsidy may be necessary to close any funding gaps within the refurbishment programme. The Council will need to assess whether the full extent of specified works for Phase 1 can be carried out depending on the outcome of the tendering process and what funds will need to be sought from potential sale of disused land on the estate in Phase 2 of the wider estate regeneration. This in turn could affect overall viability for the regeneration programme.
- 4.2 There is a risk that when tendering the sites for development that the type of housing that will work commercially for the developers may not be the type of housing which satisfies Barnet's needs. This risk will be partly mitigated through the fact that there is an adopted planning brief for the Granville Road Estate and the Council being flexible about the type of housing provision being sought.
- 4.3 There is a risk that if a development proposal involves funding support from the Homes and Communities Agency and this funding is not forthcoming that the proposals may be aborted and the Council will have to re-tender.
- 4.4 Due to current challenging economic conditions in the property market there is a risk that developers will not show sufficient interest in acquiring sites for residential development purposes for the foreseeable future. However, soft market testing with a selection of developers has shown that there is interest in the acquiring and developing these sites and in being involved in the wider regeneration of the estate and tower block refurbishment programme.

- 4.5 One of the procurement and financial model options known as a LABV, as described in Section 6.3 below is currently not operated within Barnet and represents a new and innovative partnership finance model. Whilst other local authorities have proceeded with similar models to unlock early regeneration and sites development with a private sector financial partner, there is a risk that the governance structures and financial resilience of any future private sector partner may be unknown or could face future problems if incurring financial difficulties. This could leave the Council with the liabilities to deliver site development and regeneration without robust financial and business partnerships and commercial risk assessments.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 Barnet is committed to improving the quality of life and wider participation for all the economic, educational, cultural, and social and community life in the Borough. This is achieved by pursuing successful regeneration of the borough's housing estates and where financially necessary to assist this by bringing sites to the market for residential use. This will benefit all sections of society and Barnet's diverse communities who are seeking housing and contribute to addressing the shortage of housing in the borough across all tenures.
- 5.2 The works to the tower blocks will be discussed in detail with the residents and representative groups living on the estate in general, and with those living in the tower blocks in particular. This consultation work will be carried out by Barnet Homes, on behalf of the Council, and will seek to provide as much choice as is practicable around how the works should proceed. Wider area consultation will in due course be undertaken for the for the development of the individual sites and wider estate regeneration.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 Phase 1 of the Granville Road Estate regeneration relates to refurbishment of the 3 tower blocks. Public funding of £11 million has been provisionally secured and broken down as follows:

£7 million - London Development Agency (LDA) – Targeted Funding Stream
(provisional allocation 2010-11)

£3 million – Decent Homes funding

£1 million - Growth Area Fund (GAF)

The £7 million LDA grant money is time limited and has to be spent during 2010-11 and thus it has been necessary to seek progression of Phase 1 in advance of the wider regeneration and redevelopment proposed in Phase 2. If Phase 1 had been delayed to enable the options below to be fully evaluated, there was a high risk that the project would not have progressed in time and that the grant-funding would have been lost.

- 6.2 In order to guide the wider regeneration of the Granville Road Estate, it is recommended that a Masterplan is produced. This will be paid through the Housing Revenue Account and costs recovered from any receipt the Council receives for the land.,

- 6.3 The wider regeneration and site development options will be marketed and tendered in accordance with Council and competitive procurement requirements and any proposals received will be considered in light of the Council's obligation to obtain the best consideration that can reasonably be obtained, pursuant to Section 123 obligations of the Local Government Act 1972. Competitive submissions and proposals will be considered on their merit.
- 6.4 The options for procurement include new and innovative financial and partnership models. The Council is keen to adopt the right type of finance and partnership structure and model that delivers both the two key aims of best consideration for the organisation and successful early regeneration for the Estate that unlocks its development potential and provides significant improvements to the quality of resident's lives.
- 6.5 A number of new financial and partnership options are considered in this report as well as traditional competitive tendering and procurement models. One such model is known as a Local Asset Backed Vehicle (LABV) whereby the Council puts in its property and land assets to a joint venture partnership with either a private sector financial partner and/or a registered social landlord. This can then allow smaller sites to come forward as part of a LABV portfolio of assets for rapid new home build delivery. Significant exploration of the LABV model has been explored with the leading researcher in this field, Dr Adam Marshall and *the Centre for Cities*. A number of LABVs have now been formally established in other Council's to unlock regeneration finance and delivery, including London Borough of Croydon and Tunbridge Wells. The Housing and Regeneration Cabinet Committee considered these examples and the LABV model in a formal meeting earlier this year as mentioned in paragraph 2.
- 6.6 Adoption of one of the financial and procurement models, either the traditional competitive tendering route or a LABV model will require detailed business case assessment. This will to ensure the Council is not placed into a position of undue risk and ensures that it is achieving best consideration from its assets and land where disposal and redevelopment are planned.

7. LEGAL ISSUES

- 7.1 None arise over and above those which are referred to within the body of the report.

8. CONSTITUTIONAL POWERS

- 8.1 Constitution, Part 3 – Responsibility for Functions – Section 3.6 Terms of reference of Cabinet Housing and Regeneration. To monitor the delivery of the Council's housing needs, both within and outside the regeneration schemes, including delivery through Barnet Homes, Registered Social Landlords and the regeneration development partners. To make recommendations on the above to Cabinet or Cabinet Resources Committee as appropriate.

9. BACKGROUND INFORMATION

- 9.1 Granville Road Estate is situated at the southern end of the borough in Golders Green within the Childs Hill Ward. This 1960s estate is classic of its time and consists of three taller tower blocks, Templewood Point, Harpenmead Point and Granville Point, as well as

three lower rise blocks Nant Court, Mountfield and Beech Court. Garth House, a sheltered housing block on the estate was severely damaged by fire on 5 October 2008 and is due to be demolished. The three tower blocks contain 179 properties with 44 owned by leaseholders. The quality of the tower blocks and estate generally is poor reflective of the problems of 1960s council estate developments and subsequent need for upgrade and long term management.

- 9.2 On 6 April 2009, Barnet was informed that it was successful in achieving a funding allocation of £7,013,000 from the LDA to contribute to the works to the tower blocks. The residents of the estate were notified by letter at the end of April 2009 that the Council's bid had been successful for an allocation of funding for 2010/11.
- 9.3 The works to the tower blocks, to be known as Phase 1 of the Estate regeneration, will begin as soon as a contractor partner has been procured in accordance with European requirements. The aim is to realise the refurbishment to commence by Spring 2010 or as early as the procurement process allows. The works could take 18 months and are high priority in terms of the need to draw down the LDA funding. At the same time Phase 2 of the wider regeneration will be planned and brought forward for releasing individual site plots particularly the former Garth House complex, for early redevelopment and creation of new homes and mixed tenure opportunities on the estate. It is important to ensure that whilst two processes are taking place with different funding streams, the tower block refurbishment publicly funded and infill sites privately developed, the two need to closely run in parallel and "dovetail". This will ensure a coordinated works programme and optimise the widest overall regenerative and qualitative benefits for comprehensive regeneration of the Granville Road Estate in order to create a high quality cohesive residential place
- 9.4 The Granville Road Estate encompasses large areas of under-utilised land which have significant potential to be developed for new housing as identified and formalised in the approved Planning Brief adopted by the Council in January 2008 (see estate plans attached).
- 9.5 Residential development of the Garth House and associated sites would improve viability to fund Phase 1 whilst more housing of choice creating a better place to live through improving land use and providing much needed intermediate homes and homes for private sale. The external environment would be enhanced for existing residents and additional homes would promote a mixed tenure balanced community of homes for social rent, sale and the intermediate affordable market. Sale of these lands for residential development has previously been considered and agreed by Cabinet Resources Committee in 2007 and Cabinet who approved the Planning Brief.
- 9.6 Eight sites have been identified for potential sale, these included garage courts, unused amenity space and two blocks of low density housing (Garth House and Beech Court). Garth House which has largely been destroyed by fire and due to be demolished in the summer. It is envisaged that any proceeds made from the development of these sites, taking into account related on-costs, would contribute towards the cost of the works to the tower blocks in Phase 1 by closing the funding gaps currently estimated at £3 million and thereafter help to fund the upgrade of a wider estate regeneration.
- 9.7 The Council have been looking at various options to regenerate the estate through use of

surplus land. These options involved working with small developers and included the following approaches:

9.8 (1) Principal Development Agreement (PDA)

- The 'traditional' method to procure regeneration in Barnet is via the setting up of a joint venture relationship between the Council, a Development Partner and a Registered Social Landlord. This relationship is regulated by contract and the Council normally enters into a Development Agreement, usually referred to as a Principal Development Agreement (PDA). This process is subject to the rules of the European Union including advertisement in the Journal of the European Union in selecting the Development Partner. This process usually takes 12 months. In reaction to the current economic climate there is a new accelerated process which could reduce this to 6 months. However, this new process is untried within LB Barnet and the faster timescales not guaranteed.
- The PDA route to regeneration results in a capital receipt to the Council, with ownership of the resulting units of housing belonging either to a developer (to sell on) or the RSL. Receipts depend on how successful the project is on completion and are secured by overage agreements entered into by the Council and its development partners and also through a surplus mechanism in the development agreement.
- An approximate cost for the work on procurement and in negotiating the PDA is likely to be around £1 million, a significant upfront cost to the Council

9.9 (2) Local Asset Backed Vehicle (LABV)

- A number of local authorities have started to set up Local Asset Backed Vehicles (LABV). The purposes of the LABVs are diverse and can be constructed to suit local regeneration and council circumstances.
- A LABV is normally a 50:50 partnership between the council and a private sector partner. The purpose of the LABV is to carry out a comprehensive area regeneration and/ or renewal of operational assets. This would require a strategic assessment of the Council's assets with a view to identifying those assets and land that could be best progressed through a LABV.
- The LABV vehicle is not bound by European (OJEU) rules as it is not a contracting body. However, the procurement of the private sector partner is covered by European rules and could take 12 months to finalise.
- The difference with the PDA process is that the council deposits its land assets as it's share of investment in the vehicle, which are matched in cash by the private sector investor /partner who also retains a 50% stake in the vehicle. The partnership may use the assets of the vehicle as collateral security to obtain debt financing and the Council's assets are protected through the use of options agreement that require the vehicle to transfer the assets back to the Council if the partnership does not progress according to pre - agreed timescales.

- Unlike the profit expectations in a PDA scenario, the returns on the Council's investment are defined and the Council will be entitled to 50% returns of the LABV investment.
- This model enables the Council to participate directly in the development and to influence the nature of the development as a 'land owner'.
- The larger the asset base, the greater potential for increased investment attractiveness and viability of the LABV funding model. Other sites and assets could include town centre sites or regeneration estates such as Granville Road or Dollis Valley.
- It has not yet been possible to obtain detailed costs on the procurement of this option but suspect that it may well be similar to the PDA costs.
- As the LABV is a relatively new model the financial issues have not been fully tested. However, once the LABV is set up, it would operate as an independent legal entity and would be responsible for all financial decisions to be taken by the vehicle.
- A LABV would need to include other sites as well as the sites identified on the Granville Road Estate to ensure attractiveness to financial backers and provide a viable model for future investment. However, it can be expanded as a flexible financial model with other sites and assets with Granville Road Estate as the first possible pilot asset.

9.10 (3) Sale of the sites on the open market

- It was originally anticipated that the surplus estate lands would be marketed and sold for residential development.
- This is still an option and could be done on a phased basis through either individual sale of sites or through sale of the sites as a package. The problem here, as opposed to 2007-08 when the Council formally approved this approach and adopted a Planning Brief to guide sites development, is that economic conditions have deteriorated significantly and the housing market is severely depressed with little current private property sector interest in this approach.

9.11 Officers have been undertaking soft market testing of these ideas including the new and innovative LABV model and this has shown developer interest, as well as being adopted by other ambitious and progressive local authorities attempting to unlock early delivery and regeneration. Initially three developers have been approached, two local developers and a Registered Social Landlord. All developers were interested in taking forward a new build option, but are also interested in taking forward development of the identified sites on a stand alone basis or through more innovative partnership approaches. All three developers showed that even though the housing market is currently weak there is value in the land and would be interested in taking opportunities forward at some point in the future. Options where upfront costs could be minimised or a deferred payment for the

land would be attractive for developer investors particularly as development finance by banks remains constrained.

9.12 The Next Steps: Towards Phase 2

The next step is to set up a formal project of the wider regeneration and redevelopment of the estate. This would include a sub group for Phase 1 which would be lead by Barnet Homes and would focus on the internal and external refurbishment of the tower blocks.

9.13 Following on from the adopted planning brief it is proposed that that the Council commission the development of a Masterplan for the wider estate regeneration to guide development and assist future development partners. The Masterplan would be subject to consultation with local residents and member approval.

9.14 The next stage is to consider the procurement and financial models and options in particularly the new innovative LABV option which has shown keen interest from potential partners, Government, HCA and other local authorities. Once further investigative work is complete in the next three months on how such a model could work for Barnet, and if it is something the Council want to establish, formal consideration will need to be given to include the Granville Road Estate and proceed to adopt the model to unlock early delivery and regeneration. This will involve a further report back to a future Cabinet or Cabinet Resources Committee with a formal recommendation to adopt a particular LABV or alternative financial procurement model and potentially a concurrent joint venture partnership with private sector developers and/or registered social landlords.

10. LIST OF BACKGROUND PAPERS

10.1 Letter from the London Development Agency dated 6 April 2009.
Centre for Cities – LABV Toolkit

10.2 Any person wishing to inspect the background papers listed should telephone Nicola Bird on 020 8359 4862.

Legal: SS, TE
CFO: MG