

**ROYAL BOROUGH OF KENSINGTON AND CHELSEA
CABINET MEETING – 2 MAY 2012
REPORT BY DIRECTOR OF HOUSING**

**USE OF CAPITAL RECEPITS ARISING FROM THE SALE OF
BASEMENT SPACES AT ELM PARK GARDENS**

This report seeks Cabinet approval to the use of capital receipts arising from the sale of vacant basement spaces at Elm Park Gardens for investment in new affordable homes and major improvements to existing affordable homes.

FOR DECISION

1. BACKGROUND

- 1.1 On 27 May 2004, Cabinet approved a development framework for the vacant basement shells at Elm Park Gardens that would produce a mixture of improved shells that could be disposed of to the market for development into private housing, and the delivery of key worker housing and social rented housing, enabling the Council to provide new affordable housing units from the recycled sale receipts of vacant basement spaces. Planning permission was granted on 11 July 2006 for the development of thirty-six new homes – twenty-three market flats and thirteen affordable flats.
- 1.2 A Key Decision Report (KDR) then approved the marketing of two vacant basement spaces to secure a benchmark value, which facilitated the offer of further basement spaces on a first refusal basis to seventeen adjoining ground floor leaseholders, though in the event only one completed a purchase. On 24 March 2009 Cabinet approved the recommendation to offer three basement spaces to the market to test demand. This exercise demonstrated significant demand in the market, and these basement spaces were sold easily with a large number of bidders competing for them.
- 1.3 In June 2011, Corporate Property completed the sale of a further tranche of four basement spaces for development. Market interest for this opportunity was high and remains so. Currently eighteen of the twenty-three basements areas identified for market disposal have been sold or are under offer. The capital receipts received to date have met in full the costs associated with the enabling works and the development of affordable housing at Elm Park Gardens, and receipts have exceeded pre-sale estimates. Corporate Property (acting for Housing) has been instructed to seek approval to dispose of the remaining five basement spaces for development, as part of the continuation of the Elm Park Gardens development programme.

- 1.4 With costs of the Elm Park Gardens affordable housing development now covered, the remaining receipts can now be put to further use. This report identifies potential additional costs which could bring further Elm Park Gardens vacant basement areas to market, and potentially create an additional accessible affordable unit, and also proposes that the balance of the capital receipts is used to support the development of some new Council homes and contribute to a regeneration project in the north of the borough.

2. MARKET HOUSING

- 2.1 With Cabinet approval in September 2011 a further eight basement spaces were marketed in November/December 2011. On the advice of the estate agents the spaces were cleared of debris and temporary lighting was installed before marketing. Asbestos Management Surveys were carried out and asbestos containing materials were removed where found. A Schedule of Work outlining the works required in each shell was prepared by consultant surveyors. Energy Performance Certificates were also required. The cost of preparing the spaces for sale was around £3,000 per shell.
- 2.2 Following a KDR for the disposal of these eight spaces by the Director of Property it is hoped that the completions of sale will take place in May 2012. A total of eighteen vacant spaces will then have been sold for private development. The remaining five spaces identified in the original planning application are scheduled for marketing later in 2012.

3. ADDITIONAL AREAS OF EXPENDITURE AT ELM PARK GARDENS

- 3.1 In order to be able to market one of the next five vacant basement spaces (22B) it will be necessary first to relocate some gas equipment for the block, located in the front light-well, at an estimated cost of £70,000. In the case of another two spaces (80A and B) the lease must be amended to clarify the Council's development rights over the basement. Costs will arise from this which are not yet ascertained.
- 3.2 Further vacant basements (4A, 35A, 62C and 74C) have now been identified as having development potential. These had not previously been considered as a priority for development into self-contained units due to their small size. However, given the high values being achieved for the sale of other basement areas it is now considered worthwhile exploring further the development potential of these vacant areas.
- 3.3 Currently these do not have planning consent for residential use and it would also be necessary to carry out some enabling works before they could be developed. It is recommended that a budget of

£85,000 is set aside for preparing the planning application and carrying out the enabling works that may be necessary.

- 3.4 Some basement areas at Elm Park Gardens remain that are clearly not suitable for residential development but will need some repair and maintenance. For example, there are two electricity sub-stations where the external environment is in a poor state of repair. It is recommended that a small budget is set aside for upgrading these areas and a figure of £30,000 is suggested.
- 3.5 Finally, there is a unit at the base of Elm Park House which for seven years has been the site office for the various contractors who have carried out works on the Elm Park Gardens estate. Prior to this the offices had been used on an occasional basis by the Residents' Association for meetings. It is felt that these offices, laid out as a flat originally, have potential for conversion to a wheelchair accessible flat, being on the ground floor, with level access, and served by off-street parking and a large communal garden. The TMO has looked at this and concluded that it is likely that the works can be carried out through standard HRA voids Capital Expenditure. However it is recommended that £50,000 is also set aside to support this work, to ensure that it meets all modern wheelchair accessibility standards.
- 3.6 These additional works will be subject to consultation with the Elm Park Gardens Residents' Association. The total cost of these additional areas of expenditure is £235,000, excluding potential costs of any lease changes noted at 3.1 above, which have yet to be ascertained.

4. ELM PARK GARDENS WORKS FINANCIAL APPRAISAL

- 4.1 The table below summarises all the areas of expenditure associated with the redevelopment of the basement areas for both private development and affordable housing and includes those items of additional expenditure identified in section 4 above.

Total Development Costs

Area of expenditure	Projected Costs February 2012
Asbestos removal	£161,813
Phase 1 enabling works	£557,559
Phase 2 enabling works including relocation of electrical service heads	£650,900
Modification to lift at 110 EPG	£30,000
Phase 1 fit out works	£1,110,000

Phase 2 fit out works	£1,453,668
Professional fees including surveying, client side project management, party wall surveyors, legal fees, feasibility stage costs, etc.	£534,856
Property Services SLA charges	£150,000
Miscellaneous items including planning and building control fees	£51,893
Costs associated with marketing (asbestos surveys, EPCs,	£40,000
Additional costs (as identified in 3.0 above)	£235,000
TOTAL	£4,975,689

5. SALE OF BASEMENTS FOR PRIVATE DEVELOPMENT

- 5.1 In the original planning application a total of twenty-three basement areas were identified for development as market housing. To date ten of these basements have been sold: Nos. 1A, 2A, 10A, 10B, 34A, 34B, 34C, 41, 86A and 86B. A further eight basements are currently under offer: Nos. 28A, 35C, 40A, 44C, 71B, 71C, 74A and 74B. The remaining five properties are scheduled to be sold later this year: Nos. 22B, 80A, 80B, 104A and 104B. Four potential development opportunities have been identified which will require further work: 4A, 35A, 62C and 74C.
- 5.2 The gross capital receipts received from the sale of the ten units which have been sold to date totals £5,165,875. All of the Council's development costs in respect of the affordable housing project have now been met from this sum. Subject to the successful completion of the eight properties currently under offer the capital receipt received will be £4,168,397. It is estimated that the sale of the remaining five properties will produce a further capital receipt of £2,725,000. A further £1,000,000 in capital receipts could potentially be received if all four of the further development opportunities identified come to fruition.
- 5.3 The total capital receipt generated through sales could therefore be in the region of £13m. When set against the total affordable housing development costs of £5m the potential surplus in capital receipts is now estimated at approximately £8m.
- 5.4 The receipt estimates quoted here are cautious, and it is possible that marketing will achieve higher receipts than these. However, it should also be noted that there are risks in achieving this full figure. Namely the 'developability' of 4A, 35A, 62C and 74C, which must be tested through the Planning process. Initial advice is that this is not anticipated to result in a refusal. Also potential problems associated

with the development of the basement at 80 Elm Park Gardens arising from lease issues could result in additional costs to the scheme. Counsel's advice is being sought to plan a route to resolution here. The agent's commission of 1.5% must also be discounted from the final total. Should the anticipate risks arise the receipt could reduce to around £7m.

6. PRIORITIES FOR EXPENDITURE OF ELM PARK GARDENS CAPITAL RECEIPTS

- 6.1 Under the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 the proceeds from the sale of the basement spaces can be retained because the Council retains sufficient capital allowances to avoid pooling capital receipts from the sale of HRA non-dwellings. Appropriate uses for these receipts have now been identified.

6.2 Hidden Homes

- 6.2.1 A number of sites on existing Council estates have been identified across the borough as having potential for further residential development, in the manner of the first phases of the Elm Park Gardens basement conversion works which delivered new affordable homes for rent within the footprint of an existing building. These opportunities are referred to as 'Hidden Homes', and will contribute towards the Council's Core Strategy commitment, expressed in policy CH1, to meet a housing target of 600 additional dwellings a year, of which a minimum of 200 should be affordable. It is proposed that the capital raised from the vacant basement space disposals at Elm Park Gardens should be used to help to deliver new accessible and affordable units on other Hidden Homes sites.
- 6.2.2 Two sites have been identified within the Council's existing housing stock which have potential for relatively simple conversion to provide new affordable homes for Council rent. These are a void basement area of Holmefield House on Hazlewood Crescent in Golborne Ward, and vacant former office space in 1-3 Greaves Tower on the World's End estate in Cremorne Ward. The Kensington and Chelsea Tenant Management Organisation (TMO) was asked to investigate these opportunities further, and has recruited surveyors and architects Pellings and Hunter and Partners to carry out initial feasibility studies which have shown that these sites will deliver three units of housing each, six in total, five two bedroom flats, and one three bedroom flat.
- 6.2.3 The TMO has appointed a temporary Project Manager to oversee the delivery of these projects, subject to the Council's approval of funding for this investment, and has taken a paper to their Board to approve the process they propose to undertake. A consultation

strategy has been designed with which to take residents through the stages of the project in a well-informed way.

6.2.4 The TMO has undertaken to engage with the residents and residents' associations on both of these estates, to discuss with them the potential benefits of these developments, and any issues that they may create for the existing communities. It is intended that a local lettings arrangement for the new homes will be formally consulted on with these estates, in the manner that has been agreed on the Silchester Estate garages site development.

6.2.5 Ward Councillors for the two proposed Hidden Homes development sites were invited to meet with the TMO for a full briefing on the proposals on 24 April 2012, in advance of a wider consultation.

6.2.6 Detailed design work is being undertaken as a preliminary step to resident consultation, and a detailed budget is to be prepared by cost consultants Pellings. This should be completed by the end of May 2012. However, an initial estimate of the scheme costs is as follows:

Scheme	Scheme costs
Holmefield House (new build)	£495,000
Greaves Tower (conversion)	£272,000
Project Management costs and fees	£170,000
Total	£937,000

These figures are regarded as a prudent maximum budget, will be further refined through detailed survey and design work, and are anticipated to reduce.

6.2.7 The Council currently has the sum of £232,810 in S106 Planning Gain capital receipts for expenditure on affordable housing within the Borough. It is recommended that this sum is expended against these newbuild and conversion housing projects. This will reduce the requirement for additional capital expenditure here to a maximum of approximately £700,000.

6.2.7 Subject to approvals, procurement of a contractor can be started during the period of the planning application process. A two-stage tender is anticipated, with two contractors going through to the second stage where detailed inspections of the buildings will be made over a four week period before a final, fixed price is secured for the work and an appointment is made. A six month construction period is envisaged, which, with a potential start on site in November 2012, can deliver handover of new homes in May 2013.

6.3 Capital investment

6.3.1 The TMO was asked to review the investment needs of its major estates using its Keystone asset management system to identify the highest priority and highest cost estates and capital investment projects. However, in order to ensure that any additional investment considered from the Elm Park Gardens capital receipt is not simply absorbed into the wider TMO capital programme, the Council directed the TMO to identify investment which will provide the following range of benefits:

- Regeneration or renewal of the Council's Housing Revenue Account (HRA) Assets
- Long term legacy projects
- Complementing other regeneration initiatives
- Reducing the future burden upon the Council's HRA
- Supporting wider Council policies

6.3.2 The top five 30-year investment priorities are priorities identified were as follows:

- World's End Estate:** This estate has significant investment need. These predominantly relate to the renewal of existing elements, central boiler plant, heating and hot water infrastructure, common parts, external elevations, rather than any new development or regeneration. There is limited scope within these to support wider policy objectives or deliver key regeneration aspirations or the legacy outcomes that the Council is seeking.
- Lancaster West:** This estate has significant investment needs, particularly around the common areas, heating and hot water system and windows. A child's death occurred following problems with the window opening system at Grenfell Tower and short term measures were implemented to avoid such an event happening again. However a long term solution is overdue. An assessment of estate investment need places Grenfell Tower energy efficiency, external fabric, heating system and windows as the top priorities. The TMO Board also approved the submission of funding bid to the Council for the proposals at Grenfell Tower.

In parallel, the proposed construction of the new Kensington Academy and Leisure Centre (KALC) will have a significant impact on the north of this estate, which has given rise to concern from Grenfell Tower residents who immediately overlook the site. Furthermore, the Grenfell Tower lower floors currently have an area of disused office space which has the potential for conversion into new homes. This demonstrates that an investment here has the potential to deliver a range of benefits.

- Swinbrook Estate:** The estate has a wide variety of investment needs including works to communal areas and windows. Aspects

of the required investment can be met from the available HRA Capital Programme. The potential for delivering wider objectives is limited.

- d) **Trellick Tower:** Whilst there is an ongoing need for investment in this Listed building, it has already had a larger sum invested in its repair and improvement than the Council's other estates. Furthermore there is an opportunity currently under investigation to deliver funding here through the development of the under-utilised garage and service yard areas and the neighbouring Edenham Way former old people's home site.
- e) **Silchester Estate:** The Silchester Estate currently has a significant investment planned, with a substantial kitchen and bathroom replacement project currently underway. There is also a large scale regeneration project being delivered through the agreed disposal of part of the estate to the Peabody Trust for regeneration. Whilst the estate could benefit from still further regeneration, this would require substantial consultation and planning, and is likely to be some years off before it is ready to take forward.

6.3.3 Based on the TMO's information on investment need, and the aspirations of the TMO Board and the Lancaster West Estate Management Board (EMB), the recommendation is therefore that funds from the Elm Park Gardens capital receipt be set aside for investment into renovation, regeneration and conversion works to Grenfell Tower on the Lancaster West Estate. The benefits anticipated to arise from this will be:

- Replacement of single-glazed windows which are currently beyond economic repair and unsafe, with double-glazed fenestration throughout, improving thermal efficiency and fuel economy.
- Installing thermally insulating cladding and rain screen curtain walling system to the un-insulated external elevations of Grenfell Tower, significantly improving thermal efficiency, fuel economy, and providing for an external appearance that reflects and complements the adjoining KALC project.
- Replacement and rationalisation of existing office facilities with a fully accessible reception and office.
- Rationalisation and modernisation of estate community facilities.
- Delivery of between four and six new family sized affordable homes on the lower levels of Grenfell Tower.
- Replacement of an inefficient and life-expired communal heating system with controllable and highly efficient individual gas-fire combi-boilers to each unit, linked to funding from the existing HRA Capital Programme.

- Provision of improved pedestrian routes and Public Realm at the base of Grenfell Tower, which will assist in the access planning for the new Academy and Leisure Centre.
- Delivery of resident and community aspirations for their long term benefit.
- Support of wider RBKC policy objectives including carbon management and reduction targets.
- Reduced future investment demand on the HRA.
- Improvement of the overall appearance of Grenfell Tower to the benefit of its residents and of the wider regeneration of Golborne Ward.

6.3.4 In December 2011 the TMO was asked to provide indicative costings for these works. Their proposal, incorporating external insulated cladding, new windows, enclosure of the 'open' lower level corner of the block, provision of additional residential units on the lower levels, and rationalisation of the TMO and Estate Management Board office requirements had an estimated cost of £6m.

6.3.5 In March 2012 the TMO carried out a consultation at Grenfell Tower to establish whether the items identified for investment matched resident priorities. This produced overwhelming support for the proposals. Further detailed discussions with the EMB have started in advance of wider resident engagement and a Planning Application (currently anticipated in July 2012).

6.3.6 The TMO is seeking to work in close partnership with the Kensington Academy and Leisure Centre project taking place on the site immediately adjacent to Grenfell Tower. The TMO has appointed the same design team as that for KALC to assist in the project management of detailed matters such as the co-ordination of design, consultation, public realm, site access, and works. The TMO also anticipates employing the same contractor and this is intended to ensure that the two projects are able to deliver cost savings where possible, and produce schemes that are complementary in their appearance and function. For this reason, and subject to the Cabinet's approval, there is a need to ensure that the Grenfell Tower project is permitted to proceed without delay.

7. CONCLUSIONS

7.1 Cabinet approval is sought to use the capital receipts arising from the sale of Elm Park Gardens basement spaces to develop of a programme of housing development and investment projects, to increase the number of modern, accessible and good quality affordable Council homes in the borough to fulfil our Core Strategy requirements and meet local need.

7.2 Detailed development of the programme of works should be delegated to the Cabinet Member for Housing and Property, with updates reported to Cabinet as appropriate.

7.2 The first identified priorities for the anticipated receipt of approximately £8m are:

Address	Scheme	Capital investment estimate
Elm Park Gardens basements	Investment in the delivery of spaces for further market homes, and delivery of a further unit of wheelchair accessible affordable housing	£200,000
Hidden Homes	Investment in delivery of further affordable homes at Holmefield House and Greaves Tower	£700,000 (with additional funds from S106 receipts)
Grenfell Tower	Investment in works on the Lancaster West Estate, to deliver major improvements to the fabric of Grenfell Tower, new homes and improved accessible office space	£6m
Total		£6.9m

8. FINANCIAL IMPLICATIONS

8.1 The Finance Manager for Housing has been consulted and comments that the financial implications are set out in the report. The Capital Programme will be updated as the individual schemes are approved and more accurate costings are available.

9. LEGAL IMPLICATIONS

9.1 The Chief Solicitor has been consulted and comments that the legal implications are set out in the report.

10. SUSTAINABILITY IMPLICATIONS

10.1 The proposed investment in Grenfell Tower is intended to substantially improve its carbon efficiency, and reduce fuel bills for both residents and the Council, providing positive sustainability outcomes.

10.2 The new homes produced at Holmefield House, Greaves Tower and Edenham Way will comply with the relevant modern standards required by the Council and by planning and building regulations.

11. PERSONNEL IMPLICATIONS.

11.1 There are no known Personnel implications.

12. EQUALITIES IMPLICATIONS

12.1 Consultation with the residents of Grenfell Tower has established a substantial majority of support for the proposals. Consultation on further sites for new homes will be undertaken as a key stage in the development of any more detailed plans.

12.2 Delivery of improved and accessible office accommodation at Grenfell Tower will assist residents, staff, and visitors with limited mobility to access the office here.

12.3 The proposed development of a ground floor, level access, wheelchair accessible home at Elm Park Gardens will provide a rare and much needed resource into our housing stock, to the benefit of future residents requiring this facility.

12.4 The delivery of new family-sized homes will assist the Council to meet the housing needs of households registered on the common housing register who currently face a long wait for accommodation within the borough.

13. RECOMMENDATION

The Cabinet is recommended:

13.1 to approve the options outlined for use of the capital receipts arising from the sale of Elm Park Gardens basement spaces.

13.3 to delegate the authority for approval of any minor changes to the investment proposals at Elm Park Gardens, Greaves Tower, Holmefield House, and Grenfell Tower to the Cabinet Member for Housing and Property.

13.2 to receive further and more detailed updates on the investments proposed as detailed surveys, designs and cost estimates are developed.

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