

**MYATTS FIELD NORTH HOUSING PFI  
CONFIDENTIAL**

**OUTLINE  
BUSINESS CASE**

**MARCH 2006**

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\* Files zipped in separate attachment

# Executive Summary

## Introduction

Vassall ward is one of Lambeth's most deprived. At its heart lies the Myatts Field North Estate. It should provide a centre and focus for the neighbourhood. It does the opposite. Its two long spine blocks that form an impassable barrier. Its surrounding open space is unsafe.

Despite the odds there is a strong resident community - but it struggles to sustain itself. Myatts should draw people in through its attractive facilities, and for those living there offering a quality and layout of homes that underpins a supportive and sustainable environment.

To achieve this will involve a major reshaping of the area - it calls for massive capital investment. PFI offers this opportunity which in turn unlocks many other opportunities. Through other funding streams there is money to rebuild two local schools, a health centre, a children's centre and a care home surrounding the estate. Each of these will make a significant contribution. Introducing these proposals alongside the redevelopment of Myatts, provides a unique opportunity to revitalize this community and give it the potential for a prosperous and successful future. PFI can be a catalyst for this transformation - where co-ordination can bring about a quality of change that would not otherwise be possible.

## Background to the Project

Demand for social housing considerably exceeds supply in Lambeth. Despite a range of housing condition and security problems on the estate, the demand for housing on Myatts Field North is strong. The condition of the stock is very polarised. The properties which had Estate Action investment (about 40%) are in very good condition externally, although little work was done to the interiors. The two spine blocks which did not benefit from this investment are suffering from diverse external and internal problems which give rise to high maintenance costs. Of the 477 properties on Myatts, the intention is to demolish and replace 305.

Lambeth's stock option appraisal was signed off by the Government Office for London in March 2005. It reflects the residents' wish to maintain Lambeth as a very significant public sector landlord, but with a dramatically improved management service. In order to finance bringing all properties up to Decent Homes Standard, this retention strategy is being combined with a number of estate transfers, an ALMO based on some of the TMOs, and the Myatts Field North PFI. Given the high investment levels needed on the Myatts estate, PFI has proved the best value-for-money solution to the problems that exist.

Excluding two sheltered housing schemes which are outside the proposals, Myatts Field North consists of 477 homes, 92 of which are leasehold or freehold. Of these 477, some 200 units were improved under estate action. The intention is to retain (and further improve) all but 30 of these previously improved units and to demolish and re-provide the remainder of the estate. There will be no loss of rented units, and leasehold units repurchased for demolition will be replaced.

In addition to the housing provision, the PFI contract will provide a new park to replace the existing poor quality open space, and a small community facility to replace the existing tenants' hall.

The PFI contractor will provide the full management and maintenance service for the housing, park and community facility. The Tenants' Management Organisation currently operating on the site will move to the client side of the contract to ensure the most effective resident input into the procurement, and develop a new long-term role for residents for the duration of the contract.

## **Option Appraisal**

A comprehensive option appraisal has been undertaken, ranging from the do-minimum option to the complete demolition of the estate. This rigorous evaluation delivered a preferred option of retaining and improving the properties improved under Estate Action funding, while demolishing and replacing those which did not benefit from this investment in the late 90's.

## **Public Sector Comparator and Value for Money**

Following Treasury guidance, the preferred option has been developed into a Public Sector Comparator and this has been assessed against the PFI option using prescribed VfM modelling. The conclusion is that the PFI route is clearly the most appropriate, and this is confirmed by the qualitative assessment carried out against the measures of viability, desirability and achievability.

## **Affordability**

A shadow bid model has been constructed to provide an estimate of the likely level of unitary charge which will result from a competitive procurement process. This has been used to develop an affordability model which predicts cash flow on a sinking fund basis over the life of the contract. **The credit requested is £114.6 million.** This level of subsidy results in a net additional contribution being required from the authority equivalent to £417K per annum at 2008-09 prices. The Council has accepted that this level of support will need to be found in order that this important element of the Decent Homes strategy may go forward.

## **Output Specification**

Property Investment and Management Standards are being developed in relation to the housing units and are substantially based on standards established by the Housing Corporation for housing associations. These will be developed further in consultation with estate residents prior to ITN. Management standards are also being developed in relation to the provision of the park within the project, these are adapted from standards that have evolved over a number of years following the contracting of these services.

Service Performance Standards have also been drafted, based on the Council's own targets for in-house and external providers. These will also be developed in consultation with local residents who will bring considerable expertise from their development of a Tenants Management Organisation on the estate.

## **Deliverability**

Briefing sessions for potential bidders were held in the summer of 2004 and the summer of 2005. The response and the comments at the events suggested that there was real interest in the market for a scheme such as was proposed. The Cou

## **Key Terms and Conditions and Payment Mechanism**

The Council intends to follow the draft Project Agreement contained in the Housing Procurement Pack, except where this needs to be varied to meet scheme-specific issues.

With regards to properties built for outright sale and affordable housing, the Council envisages that the that the non-PFI element of the Myatts Field North contract be let as a development agreement, which would seek to optimise revenue from properties built for sale, affordable and private sale.

The Council is having discussions with other local authorities on the best mechanism to use for best managing RTB risk during the life of the contract.

A payment mechanism is being developed alongside the PMS and SPS which will ensure that these standards are enforceable through the contract. The principles on which the mechanism is based include providing incentives for the contractor to perform, keeping the basis of measurement clear and simple, progressively increasing the level of penalty for long-term or recurrent failure, and avoiding subjective measures of performance so far as possible.

## **Risk Allocation and Accounting Treatment**

A risk analysis has been undertaken and strategies put in place to eliminate or to mitigate risks. Those risks that cannot be removed appear on the risk register that provisionally allocates risk between the parties, in line with guidance contained in the Housing Procurement Pack.

The authority's financial consultants have a prepared an initial report on the accounting treatment of the project and the Council's auditors have issued their comments on that report.

## **Project Management and Timetable**

The Council has put together robust delivery arrangements to ensure that this project is carried through. The Project Board is chaired by the Executive Member for Housing and has the benefit of the local Ward Councillor and an impressive array of representatives of the local community. The project is sponsored at the highest level within the Council. A dedicated delivery team has been recruited and this is supplemented as necessary by officers seconded from relevant sections. The authority is committed to resourcing the project effectively through the procurement process and has made budgetary provision to do this.

A project timetable has been agreed, based on the guidance within the Housing Procurement Pack but taking account of the governance arrangements in place. Assuming that the OBC is signed off in March 2006, financial close is anticipated in the first quarter of 2008.

## **Commitment of Stakeholders and Sponsors**

The Executive of Lambeth Borough Council is determined to successfully deliver this scheme and key members are fully engaged in monitoring progress on a regular basis. Opposition members are kept fully informed on the project and are also supporting the development. Estate residents are generally supportive of the proposal and are beginning to get involved in consultation groups around the output spec and land use issues. Representatives from groups across the whole ward have been fully involved with the Council and with partners such as the PCT and local schools in working up an Urban Design Framework which will provide a context of clarity and certainty within which private sector bidders can make their proposals.

## **Statutory Processes**

The Council has already undertaken planning around the need to secure various statutory consents. A provisional report on title has also been prepared covering all the land within the regeneration area. Preparation is underway to commence proceedings in relation to compulsory purchase, extinguishment of rights of way, road closure orders, etc. Continuous liaison has been established with the planning staff to ensure that planning concerns are identified in good time and action put in place to deal with them.

## **Sharing of Information**

The Council is happy to share experience and final contract documentation with other local authorities procuring similar projects, Government departments and 4ps.

# Background

## 1.1 Lambeth Council

Lambeth is one of the thirteen boroughs that make up inner London. Covering an area of 227 Hectares, around 10.5 square miles it is located between Wandsworth in the west, Southwark in the east, Westminster across the Thames to the north, and Croydon to the south. The borough is seven miles north to south and about two and a half miles east to west. Waterloo, Westminster, Lambeth Vauxhall, and the Golden Jubilee bridges all join the southern bank of the Thames in Lambeth. The A23 London to Brighton road runs the length of the borough from Kennington to Streatham, and the A205 South Circular separates the outer town centres of Streatham and Norwood from the central town centres of Brixton and Clapham.

Lambeth is one of inner-London's most vibrant, diverse and densely populated boroughs. Latest information from the 2001 census confirms earlier projections of population and household growth in the borough. The resident population of Lambeth, is 268,500 (2003 mid year estimate) of which 49% were male and 51% were female. Lambeth is inner-London's most populous borough. The census also reports 118,447 households.

Socially and culturally Lambeth has one of the most diverse communities in the country. According to the 2001 Census, 38 per cent of Lambeth's population are from ethnic minorities, the seventh highest proportion in the country. Over 68,000 people are classified as Black or Black British. Approximately 132 languages are spoken in the Borough. After English, the main languages spoken are Yoruba and Portuguese (Source: 2003 Lambeth Pupil Survey).

### ***Employment and Unemployment***

There are approximately 9,800 businesses in the Borough, providing 119,400 jobs. These tend to be small businesses employing 10 staff or less. The public sector is the dominant form of employment in Lambeth providing 37,299 jobs, followed by the banking and finance sector (35,133), and hotels & restaurants (22,115). (Source: 2002 Annual Business Inquiry).

According to the 2001 Census, Lambeth has a higher proportion of residents in full-time employment (45.8 per cent) than Inner London (42.6 per cent) and England & Wales (40.8 per cent). However, Lambeth has a high unemployment rate of 9.8 per cent, compared to 8.9 per cent for Inner London and 4.8 per cent for England (Source: Quarterly Labour Force Survey, Summer 2003 – Spring 2004 figures).

The Greater London Authority calculates a claimant count rate based on Job Seekers Allowance figures. Lambeth's current claimant count rate is 6.5 per cent, compared with 6.1 per cent for Inner London and 3.0 per cent for England & Wales. For males the figure is 8.6 per cent, and females 4.0 per cent. (Source: GLA Claimant Count rates, July 2004). The problem is compounded by the length of time that many Lambeth residents remain unemployed; 42.8 per cent have been unemployed for more than 6 months. (Source: ONS Claimant Count figures, July 2004).

## **Deprivation Ranking**

Lambeth has areas of substantial affluence as well as areas of severe deprivation. This means that, as a borough, Lambeth is not as deprived as some other boroughs, but the most deprived areas within the borough certainly rank amongst the worst in the country. Looking at the small sub-ward areas counted by the English Indices of Deprivation 2004 – there are 177 of these in Lambeth – Lambeth performs poorly for crime (50 fall into the most deprived 5 per cent) and for income (11 in the most deprived 5 per cent). Lambeth is less deprived in terms of health, living environment, barriers to housing and services, employment and education and training.

## **1.2 Lambeth's Vision**

The vision for the Council as set out in the Unitary Development Plan (2002-16) is:

*Our purpose is to provide a democratic leadership for the benefit of all the borough's citizens. Our aim is to make Lambeth a great place to live, visit and work – a clean, green and safe borough, with excellent schools, good affordable housing and a strong economy. We will work in partnership with communities, business, and others such as the police, health services and transport providers to improve the quality of life and chances for all citizens. Our services will be organised to suit the needs of our customers. We will deliver to them continuously improving, quality, value-for-money services that recognise diversity and promote equality. We will provide our customers with access to services in the locations they want at the times they want. We will consult, listen and act democratically before making decisions. We will cut red tape and build a reputation as an innovative and outward looking organisation. Lambeth will be the best-run council in London, a council which gives and receives respect, where residents are proud to live and staff are proud to work.*

## **1.3 Demand for Social Housing**

All the evidence on the demand for social housing in Lambeth points to strong and continuing demand, greatly exceeding the likely supply of Council and housing association properties becoming available for letting. The current and predicted demand is explored in detail in section 2.1.

## **1.4 Stock Condition**

Major design problems on Myatts Field North include internal guttering and down pipes giving rise to water ingress which is difficult to locate and deal with, lack of private space, insecure entranceways and access routes, and sound insulation problems arising from the interleaving of units with each other. Almost as soon as they were built, security problems meant that the underground garages on Myatts Field North estate were taken out of use.

With the allocation of Estate Action funding in the nineties, the three spine blocks should have been remodelled, with the decks coming out and the garage areas being integrated into the units above. In fact only the smallest of the 3 blocks was improved in this way, the remainder of the funding was spent on external works to the terraced properties and smaller blocks on the estate. As a result, the improved properties were rescued from further decline (although many of the security issues remained), while the

slide continued on the two larger spine blocks. No properties had significant internal works.

## 1.5 Summary of Housing Stock included in the project

The proposal is to retain the majority of dwellings that benefited from Estate Action investment, while demolishing and re-providing those that did not. The following tables detail the housing stock on Myatts Field North, including the numbers of properties proposed for demolition or refurbishment – by rented, leasehold and freehold status.

### Myatts Field North Dwelling Summary

Block	Dwellings by status		
	Rentable (incl voids)	Leasehold	Freehold
<b>Proposed for refurbishment</b>			
Carlton Court	40	4	3
Fairbairn Green	15	0	3
Fountain Place	11	0	7
Foxley Square	55	11	0
Hammelton Green	13	5	5
<b>Sub total refurb</b>	<b>134</b>	<b>20</b>	<b>18</b>
<b>Proposed for demolition</b>			
Bramah Green	32	7	0
Crawshay Court	81	15	1
Eythorne Road	20	0	2
Fairbairn Green	19	5	0
Fountain Place	28	9	0
Foxley Square	2	2	0
Treherne Court	69	13	0
<b>Sub total demo</b>	<b>251</b>	<b>51</b>	<b>3</b>
<b>Total refurb + demo</b>	<b>385</b>	<b>71</b>	<b>21</b>

### Retained/Demolished properties by size

	Bedrooms					Total
	1	2	3	4	5	
<b>Retained</b>	88		44	34	6	<b>172</b>
<b>Demolished</b>	78	3	214	10	0	<b>305</b>
						<b>477</b>

# Housing & Business Need

## 2.1 Analysis of Demand for Social Housing

### Overview

Demand for social housing considerably exceeds the supply of properties becoming available for letting in Lambeth.

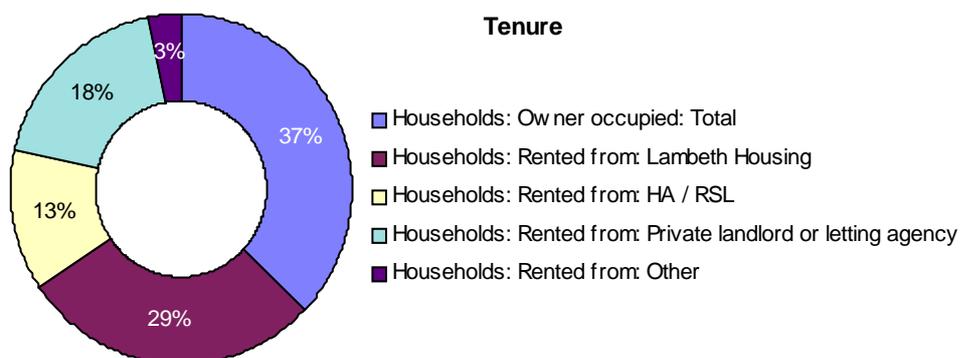
All the evidence on the demand for social housing in Lambeth points to strong and continuing demand, greatly exceeding the likely supply of Council and housing association properties becoming available for letting.

### *The Housing Needs Survey 2002*

A Housing Needs Survey was carried out on behalf of the Council by Fordhams Research in 2002. The Survey estimated that 21% of households in Lambeth (24,246) were then living in unsuitable housing, of which 13,600 (57%) required alternative accommodation to meet their housing needs. The biggest problems are disrepair, overcrowding and lack of affordability of the private sector.

The survey also identified 2,210 potential households who said they needed to move immediately. Most of these are living in Council properties.

The Housing Needs Survey estimated a supply of 4,213 affordable homes was needed each year in the five-year period 2003 to 2008. The actual supply of social housing lettings to meet this need was estimated at only 2,268 dwellings per year. Therefore there is an estimated annual shortfall of 1,945 affordable homes per year.



### *Lambeth's population*

Demand for social housing needs to be seen in the context of the Borough's rising population. Following a decline in the period 1981-1991, Lambeth's population grew rapidly in the decade 1991-2001, by 8.5%. The resident population of Lambeth according to the 2001 Census was 266,169 persons. The Census also reported 118,447 households, again the highest number for inner London.

Lambeth's population is younger than the UK average. The Borough has over a third more adults in the 20–40 age group than the national average, and the highest proportion of single person households in the UK. The average age of Borough residents is 34, compared with an average of 39 for England and Wales. This suggests that there are a high number of people who share accommodation on an economic basis only. Movement of these households is expected to increase demand for one-bedroom accommodation. The proportion of lone parent households in Lambeth with dependent children was also high at 10%, compared to the England and Wales average of 6%.

## ***Tenure***

Analysis of our figures shows that 41% of households in the borough live in social rented housing (i.e. renting from the Council, a housing association or another registered social landlord), much higher than the London average. 37% of households in Lambeth live in owner-occupied homes, while the remaining 22% rent privately or live with friends or relatives. Owner occupation is growing, not least through the Right to Buy, but is still a long way below the London norm.

Indian households are most likely to be owner-occupiers, followed by white British. Both black African and black Caribbean households are most likely to be social renters, accounting for about 70% of all social rented households. They are also least likely to be owner-occupiers, with owning black African households at less than half the borough average.

## ***The local housing market***

Over the past four years there has been very strong, continuing growth in property prices. These dramatic rises have led to a borough-wide price average of £244,865 in the first quarter of 2004.

In 1998, house prices in Lambeth were 87% of the London average. Between 2000 and 2002, the rise in Lambeth's house prices was the highest in inner London. After peaking at 103%, in the first quarter of 2004 they were still 93% of the London average (Land Registry data).

The increase in prices in the borough has not been uniform. Growth in Streatham (SW16), traditionally one of the cheaper areas, has leapt to put it on a par with Brixton (SW2), where growth has slowed. Clapham has seen the highest rate of growth, maintaining its position as the most popular and expensive area of the borough.

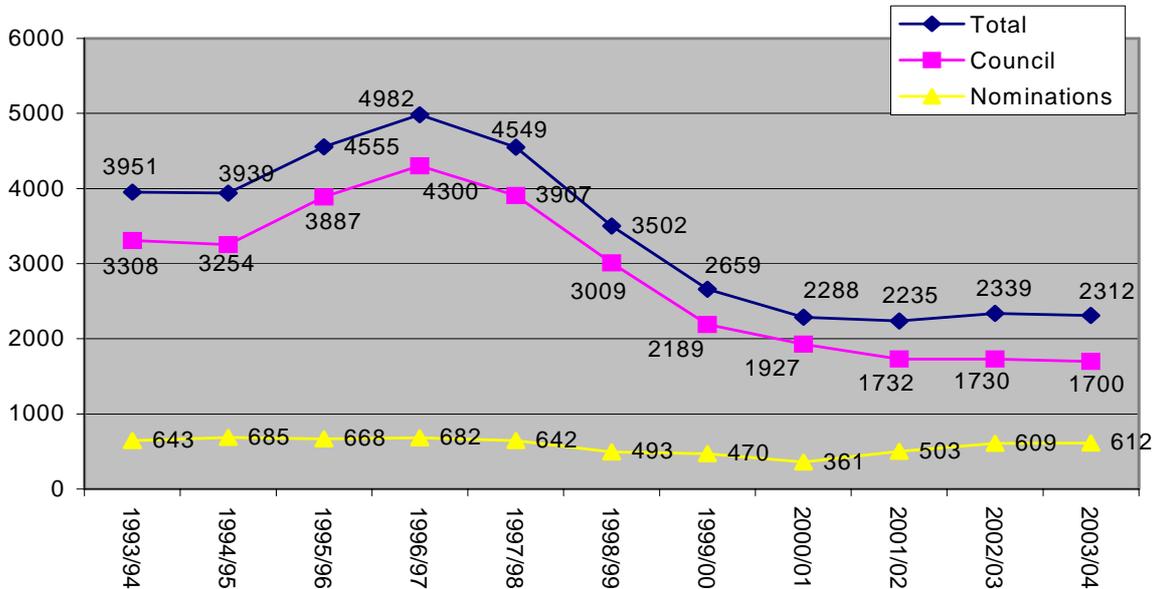
Assuming a generous income multiple of 3.5 from an average lender to a purchaser with a 5% deposit, a person looking to enter the market at the average property price for Lambeth would require an income of £66,463.

Although excluded from Land Registry data, ex-Council Right to Buy homes are some of the cheapest properties in the borough. During 2002/03 the Council sold 1,087 properties to tenants at an average price of £62,268. In 2003/04 this increased to 1,410 sales at an average price of £78,830. At these prices, Right to Buy is probably the only opportunity that tenants on average or below average earnings have of entering the home ownership market in the borough.

A Joseph Rowntree Foundation study, 'Can work – can't buy' (Steve Wilcox, May 2003, ISBN 1 89535 097 6) examined the affordability of home ownership. The study found

that 76% of households in London are unable to purchase an average home at lower quartile, average house prices. The study demonstrates that, in 2002 in Lambeth, an average 4/5 room home cost £212,974. This represented for the average working household in Lambeth, with an annual income of £41,695, a house price-to-income ratio of 5.11, the 2<sup>nd</sup> highest in the SW London sub-region, and the 6<sup>th</sup> highest in inner London, putting home ownership out of reach for a large part of the Borough's households.

Figure 2: Lettings 1993-2004 (inclusive)



### Housing supply and new households

The increase in population is likely to continue. GLA Population and Household Forecasts project that by 2016 Lambeth will have 304,379 people living in 146,783 households, with the average household size remaining static at 2.12 persons. As Lambeth's resident population continues to grow, so will demand for housing. Projections to 2016 suggest that the number of households in the borough will grow by nearly 2,000 a year. This is on top of existing and unmet needs.

The Council's current projection for the production of new homes is a total of 8,400 additional, affordable homes by 2016. The Mayor of London's Housing Commission, which reported in November 2000, calculated that to tackle the backlog of housing demand, 43,000 new homes would be needed across the capital each year for the next ten years.

### Social housing in Lambeth

People on low incomes and others excluded from home ownership usually turn to the Council to meet their housing needs. There continues to be an expectation by residents that, in the absence of other solutions, the Council will be able to assist. This expectation persists even when an applicant's priority is a long way short of what is needed for an offer.

The Council currently owns 31,965 individual homes. There are 15,642 housing association homes in the Borough, managed by 40 housing associations registered

with the Housing Corporation. In 2003/04, 225 new Housing Association homes for rent and 107 for shared ownership were completed.

Only 1,700 Council lettings could be made in 2003/04 compared with a peak of 4,300 in 1996/97.

Demand from housing applicants far exceeds supply. At the beginning of April 2004 there were 25,255 live housing applications, including 12,847 households on the mainstream Housing Register, 8,451 on the mainstream Transfer List, and 3,105 homeless households. Of these, 6,440 were new applications, made over the previous twelve months.

The projected 2,531 lettings and nominations from all sources in 2004/05 is only 10% of total demand.

The situation in future years is likely to become even more difficult, because of the continuing reduction in the number of homes falling vacant each year in the Council's stock. At best, we expect a static supply of homes over the next three years, while demand will rise.

Reasons that Council lettings are falling include:

- A reduction in the number of homes, with Right to Buy sales running at over 1,000 a year.
- 4,676 homes have transferred to housing associations through partial stock transfer since 1998.
- The Council has been successful in reducing the number of empty homes in its own stock.
- Rising housing prices and market rents have reduced alternatives for tenants wanting to move out of the Council sector, slowing the turnover of the stock.

In the last three years an increase in the number of lettings made by housing associations to Council nominees has roughly compensated for the decline in Council lettings, but this cannot continue indefinitely.

Applications for social housing far outstrip the number of homes available for all sizes of dwellings. The shortage of dwellings is most acute for large (four or more bedroom) properties, with 13 applicant households for every such letting.

Unless applicants fall into the highest priority categories (i.e. they are statutory homeless, being decanted, under-occupying tenants or emergency cases), they have very limited chances of an offer. Less than 3% of households on the mainstream Housing register and less than 14% of households on the mainstream Transfer List can expect an offer in the next three years.

### ***Homelessness and temporary accommodation***

Demand from statutory homeless households continues to be the biggest pressure on social housing in Lambeth. Demand for social housing therefore has to be seen in the context of continuing homelessness.

The number of households accepted as homeless in 2003/04 declined by 6% to 1,545. However, the level of acceptances was still the second highest after the record rate of 2002/03.

*Table 2: % Change in Homelessness Acceptances  
1999 – 2004*

<b>Year</b>	<b>Homeless acceptances</b>	<b>% change</b>
1999/00	1,124	8%
2000/01	1,110	-1%
2001/02	1,469	32%
2002/03	1,651	12%
2003/04	1,545	-6%

Our Lettings Plan for 2004/05 is targeting 60% of all lettings and nominations on statutorily homeless households.

Our Homelessness Review 2003 and Homelessness Strategy 2003-4 deal in depth with all issues relating to homelessness in the borough. A copy is available on request from Lambeth Housing.

Of the 1,545 homeless acceptances last year, just over half (51%) were from families with children (38%) and single pregnant women (13%).

The other half were from single vulnerable people including 16/17 year olds (12%), ex-care leavers, households leaving prison or remand, and households vulnerable through mental illness, physical disability, old age or other special reasons.

The numbers of households in temporary accommodation at the beginning of April 2004 was 1,845, an increase of 84% over the previous two years. Although bed-and-breakfast is no longer used for homeless families with children, it is still needed for single people and childless couples, and more importantly, other forms of temporary accommodation are still increasing. For many homeless households, “temporary” accommodation is no longer temporary.

### ***Housing Demand within Myatts Field North***

Despite the problems experienced by residents on the estate – the condition of their homes, the lack of safety, and the stigmatisation – the majority of people would like to stay in within the regeneration area. Turnover of tenancies is very low, and there is a waiting list of people wanting to take up any new lettings. Right to buy has been exercised to a significant extent, resulting in 20% owner occupation.

## **2.2 The Stock Option Re-appraisal and the HRA Business Plan**

Lambeth’s stock option appraisal was signed off by the Government Office for London in March 2005. Through a housing investment commission residents endorsed a report in 2002 which has formed the basis for the investment strategy ever since. Essentially residents wanted to maintain Lambeth as a very significant public sector landlord, taking advantage of its economies of scale and its democratic accountability. However they only wanted to pursue this option if there was a fundamental change in the way

council housing was managed. Their proposals received all-party support on the eve of the 2002 local elections.

The management change has now been put into effect through a comprehensive re-framing of the council's housing management service. But there was a problem. Residents recognised there would not be enough money to bring all the stock up to the Decent Homes standard, and suggested a limited programme of stock transfers. Strict criteria were agreed by the Council which ensured transfer was only considered where estates were in poor condition and where residents showed an active interest in moving landlord.

Four estates were identified for potential transfer. But there was another difficulty. The original resident assessment did not have the benefit of an up-to-date stock condition survey. When this was completed and data made available in 2003, it was clear the investment gap was going to be hard to close. The Council looked at ways of economising – with the re-framing of the management service being one way of delivering significant savings. It also started a planned programme of selling surplus land, buildings and properties too expensive to repair. At the end of all this there was still an investment gap of some £50 million. This is being filled through:

- 2 further stock transfers to add to the 4 already in the programme
- An Arms Length Management Organisation for 8 of the high performing Tenant Management Organisations
- The PFI at Myatts Field, where other possible ways of dealing with the problem just did not provide value for money.

This means that the Council is using all the government options to achieve Decent Homes, alongside substantial stock retention. It is a complex package, but one which the Government Office has recognised is realistic and achievable. Through their sign-off of the plans, the Council can now pursue all the options selected. Alongside this Outline Business Case, there are bids in with the ODPM for deficit funding of the 2 further transfers, and for the ALMO.

## 2.3 Other relevant policies

The scheme proposed in this OBC conforms with the objectives of other strategic plans and objectives to which the Council is committed, and in many cases contributes to their realisation. **Appendix 2.1** explores these objectives more fully but in summary, the key policies are as follows:

**Lambeth Housing Strategy (2004-07)** Outlines key priorities for housing in Lambeth for the next few years. These are as follows:

- Increase the supply of affordable housing
- Enhance community leadership
- Prevent homelessness
- Provide better value for money
- Invest in the council's housing stock
- Improve community safety

This strategy builds on the Central Government priorities of Decent Homes, Sustainable Communities, Homelessness and Neighbourhood Renewal (see Appendix 2.1 for more details).

### ***Lambeth Housing Strategy – Diversity Objectives:***

**Allocations:** A significant proportion of the new homes will be let to existing residents of the estate. New lettings will be subject to the Council's needs driven allocation policy.

**BME Action:** This scheme deals with some of the worst properties within the authority's stock, where research shows that a disproportionate number of BME families are housed. This investment will therefore contribute to redressing that historical inequity. The replacement of existing units with new-build gives the opportunity to increase the proportion of larger units which again will redress the imbalance between the needs of various BME communities and the overall make-up of the stock.

**Addressing Access:** At least 10% of all new-build properties with ground floor access will be constructed to wheelchair standards, and a further proportion to lifetime homes specification. The contractor will be required to deal with adaptations as an integral part of preparing units for hand-over, rather than aids and adaptations going in as an afterthought by different agencies. The re-built roads and pedestrian routes will offer the opportunity for establishing equal access as a right, as well as user-friendly design for those with sight or hearing impairment.

**Older People:** The proposals will result in a radical improvement of safety levels for people moving around the redeveloped housing. This has particular significance for elderly residents, as does the integration of public park and community facilities.

**Strengthening Communities:** High levels of communication will be established with residents in order to ensure effective consultation on the details of the scheme, and subsequently to ensure that the decant process is as efficient as possible. A bi-product of this level of communication will be an increase in community cohesion. The intensive consultation process will be used to empower traditionally hard to reach groups and to encourage their participation in wider forums as well as in the regeneration itself.

**Lambeth Community Plan (2004-15):** Lays out the vision and the long-term direction for the borough and outlines primary objectives in a number of key areas which will deliver that vision.

**The Unitary Development Plan (2002-16):** Enshrines the Council's strategic planning objectives in relation to the borough's limited land resources, transportation, open space, the enhancement of the borough's built environment and the promotion of more sustainable design in developments.

**The Open Space Strategy (2004):** Aims to improve the quality of life for Lambeth residents by increasing the amount and the quality of public open space, to encourage its use by all sections of the community, and to promote health and educational opportunities through its use.

**REGIONAL AND NATIONAL PRIORITIES:** The Lambeth Housing Strategy draws on a comprehensive and wide ranging set of plans and strategies from across the Council

and further a field. The diagram over the page highlights some of the key influences and linkages. Those strategies relevant to Myatts Field North are detailed in **Appendix 2.1**.

National	Sustainable Communities: building for the future (Communities Plan)				National Strategy for Community Renewal			
	Best Value							
	Quality and Choice – a decent home for all							
Region	The London Housing Strategy: Homes and Communities in London				A Housing Strategy for South-West London			
	The London Plan							
Borough	Unitary Development Plan							
	CPA Recovery Plan							
	Community Strategy: Lambeth 1 <sup>st</sup>							
Corporate plans	Comprehensive Equalities Plan		Asset Management Plan		Capital Strategy		Community Safety Strategy	
	Community Engagement and Participation Strategy		Housing Strategy				Teenage Pregnancy and Parenthood Strategy	
	Lambeth Environment Charter		Medium Term Financial Strategy		Supporting People Strategy		E-government Strategy	
Housing Plans	HRA Business Plan	Homelessness Strategy	Private Sector Strategy	Empty Property Strategy	Housing Investment Commission Report	BME Housing Strategy	Affordable Warmth Strategy	Sustainable development & construction initiative
	Over arching housing plan							

## 2.4 Projected Demand for the Dwellings

Despite the poor condition of more than half of the units, the personal safety and security issues, and the stigma attached to living on Myatts Field North, demand for these homes remains high. Turnover is relatively low, in the past year there have been only ten properties that have become available for letting. Further to this the MORI census in 2003 found that 50% of residents had lived there for more than 10 years. There are no voids other than those arising from necessary pre-letting works or extraordinary circumstances. Central allocations confirm that there is a waiting list for any properties that become available to let.

The demand for home ownership in the area is demonstrated by the fact that nearly a fifth of the units on the estate have already been purchased under right-to-buy provisions. In terms of demand for units for outright sale and shared ownership, experience has shown that buyers are not put off by locations within concentrations of council housing, where the area is subject to major regeneration, provided the homes are in a central location. As part of the redevelopment/refurbishment of Penwith Manor in Kennington for example, eight shared ownership flats – located amongst several hundred rented – sold in a matter of hours. A similar number of units within a Hackney estate attracted 390 applications to purchase. The Council has sought professional valuation advice which confirms that there is a ready market for units for sale in this location.

## 2.5 Location and Geographical Context

Myatts Field North is located approximately one mile north of Brixton Centre, equidistant from the main routes of Brixton Road and Camberwell New Road. It is bounded by Cowley Road, Mostyn Road, Akerman Road, Patmos Road and Cancell Road. Mostyn Gardens, the area of existing public open space which was created when the Estate was built, is also contained within these boundaries – see maps attached at **Appendices 2.2 and 2.3**.

Despite the stigma that has gradually built up around the estate, this is a high value area in every sense. The residents value its location – it has good transport links, and is within easy reach of both Brixton and also work opportunities in central London. The value of existing leasehold and freehold properties on the estate (acquired through Right to Buy) are relatively high. While this represents a significant problem in redeveloping the estate (cost of buy-backs prior to demolition) it also provides the opportunity to fund those buybacks partially through building additional units for sale.

## 2.6 Description of the Estate

The housing currently comprises 477 units, of which 92 are leasehold or freehold. The mix is as follows:

1 bed	2 bed	3 bed	4 bed	5 bed	Total
166	3	258	44	6	477

The estate was built in the late 1970's and comprises two very different kinds of stock. On the one hand, there are three spine blocks which demonstrate some of the worst aspects of design prevalent at that time – deck access to the majority of properties, large underground garages which have been out of use for most of their life on safety grounds, long unsupervised stairways to large groups of top-floor units, and external space for a majority of units is of poor quality or absent entirely. The internal guttering and downpipes, allied with complex roof elements, have resulted in water ingress which is complex to deal with, and the interleaving of units gives rise to sound insulation problems which are very difficult to overcome.

On the other hand, there are over 80 properties with gardens arranged on estate roads. Following envelope works under Estate Action, these are highly prized by their occupiers, and a significant proportion have been purchased through Right to Buy.

Over the years, the problems on the spine blocks, and the security problems throughout the badly laid out estate, have led to residents being stigmatised. This in turn has undermined the economic sustainability of the community.

While the estate is not high-density housing, the amenity space which is provided between the blocks is of poor quality and is laid out in a way which deters any sense of ownership by particular groups of homes. The result is that it is largely unused, except by groups of teenagers and younger children hanging out – engaged in nothing very positive.

Those areas of the estate where Estate Action investment took place (see later) are generally quite attractive. The unimproved properties – mainly the two larger spine blocks – exude a sense of decay and lack of maintenance. A Tenant Management Organisation (TMO) took over the management and maintenance of the estate from April 2004. Their efforts have reduced the impression that this is housing which no-one cares for, but they struggle with intrinsic problems such as poorly supervised access-ways and badly designed refuse arrangements.

While crime levels are not excessive by comparison with similar estates in the borough, there has been a long-term problem in relation to the open space of mugging and drug dealing.

## **2.7 Profile of the Residents**

A census was carried out for the Council by MORI in May 2003 – partly to establish definitively who was housed on the estate and what their current housing needs were – partly to gauge opinion in relation to certain key issues relevant to the redevelopment options which might prove open to the Council. The latter included the conditions under which they would want to stay, the density/height of new housing, the possibility of a change of landlord, attitude to units for sale, etc., and this has guided our development of the current proposals. In terms of the make-up of the residents, some of the key findings were:

- two-thirds of the residents receive housing benefit;
- 52% of residents are economically active, this is an increase of some 22% from the original estate action submission in 1992/93;

- almost half of residents feel unsafe on the estate after dark;
- there is general satisfaction with local facilities such as buses, health facilities, shops, parks and open space. However, there is general dissatisfaction with community facilities, sports pitch and youth facilities, all of which are to be improved or provided new as part of the proposed submission;
- almost two-thirds of residents would wish to remain on the estate in a new built home
- levels of satisfaction in relation to various factors were significantly higher amongst residents of the improved properties, than amongst unimproved properties.

## **2.8 Brief history of attempted solutions**

In the late 90's, using Estate Action funding, the Council began to tackle the problems. The chosen solution was to focus on the external envelope of all the units, and on removing the walkways on the spine blocks – the underground garages below the walkways becoming a new street, and below the buildings being incorporated into the housing units above. It is clear from resident surveys that this work was substantially successful. Unfortunately, the money ran out before the two large spine blocks had been tackled. The challenge then was to develop a solution that generated further finance to complete the work to the council properties.

A cross-subsidy scheme was therefore worked up which involved demolition/rebuild of the unimproved housing, and building up to 600 additional homes for sale, many of them on Mostyn Gardens open space. The loss of open space was a price which residents felt was worth paying, but with the change in policy on open space following the 2002 local elections, building on Mostyn Gardens was no longer an option. Attempts to salvage the scheme by building on the existing footprint plus some peripheral sites foundered on the residents' deep-rooted opposition to high density solutions. In any case, it was to become apparent by mid-2003 that the cross-subsidy solution would not prove viable, as sale values were failing to keep pace with construction cost inflation.

With the decision to allow Round 3 Housing PFI bids to include new-build projects, the Council was finally able to see a way in which the spine blocks could be demolished and re-provided without having to build an impractical number of additional units for sale.

## **2.9 Scope of the Proposed Scheme:**

While the central objective of the project has always been, and remains, the rectification of very poor quality, inefficient to maintain housing on Myatts Field North, the context of the estate has meant that the objectives – since the late nineties at least – have had to be recognised as wider than simply good housing. There are several reasons for this. Firstly, the layout of the estate means that simply to improve the existing housing (and the Estate Action funded works have been very successful in these limited terms) would be to lock the inherently poor layout in place for the life of the housing, and with it the exposed rear gardens, poor circulation routes and consequent lack of personal safety.

Secondly, the existing layout dictates the location and layout of the public open space. To leave this with virtually no passive supervision, sight-lines which encourage mugging

and drug dealing, and the inability to sustain facilities which would provide safety through sustained use, would be to leave a cancer at the heart of the improved housing.

Thirdly, the residents of the estate are cohesive, mutually supportive, and despite the endemic problems faced by most, remarkably loyal to the area, and wish to stay. A redevelopment solution which involved decanting residents off the estate while the housing was rehabilitated would inevitably see the partial break-up of that community and the very attributes which the Council is endeavouring to encourage across all communities in the Borough.

Finally, the estate is at the centre of one of the most deprived wards in the country, a ward with very high levels of social housing. The redevelopment of Myatts Field North represents the only real opportunity, in the foreseeable future, to engineer change both in how that wider community works, and indeed how it is seen.

It is this combination of housing requiring very high levels of investment, and the context in which it is located, which drives the particular scope of the proposed project. The elements are as follows:

***Housing:***

The strategy is to retain the vast majority of the properties which benefited from external Estate Action investment, updating them internally to above Decent Homes standard. The strategy is to demolish the homes which have had no investment and replacing them to modern standards in a layout which will itself be secure by design.

The plan is to integrate with the retained stock and new build so as to reduce the overall layout deficiencies. Approximately 187 additional units will be built for outright sale; this will partially fund the leaseholder buy-back (see below) and will improve the economic diversity of the community.

In total 305 dwellings will be demolished and replaced on a like for like basis, i.e. there will be no loss of social rented accommodation, while the current leasehold properties will be replaced and made available as a combination of low cost home ownership and outright sale, with priority going to returning leaseholders. The mix of the rented units which will be re-provided reflects the need to accommodate tenants wishing to remain on the estate, the priority housing needs within the borough, and the practicalities of a shift back to street-based housing. Once a preferred bidder is selected, a housing needs survey will be undertaken to establish that the proposed mix will meet the requirements prevailing at that time, but it is anticipated that only minor adjustments to the mix will be necessary.

The table below shows the proposed mix compared to the mix of the units to be demolished. In response to the identified shortage of large family accommodation, the mix of dwellings for rent provides a fourfold increase, from 9 to 37, in the number of dwellings larger than 3 bedrooms, and this increase includes a significant number of new 5-bedroom dwellings.

## 1. Existing dwellings

	Dwelling type and size									Total
	Flat		Mais.	Bungalow			House			
	1 bed	2 bed	3 bed	2 bed	3 bed	4 bed	3 bed	4 bed	5 bed	
<b>Refurbishment/retention</b>										
Rentable	75	-	17	-	-	-	14	23	5	134
Leasehold	13	-	7	-	-	-	-	-	-	20
Freehold	-	-	-	-	-	-	6	11	1	18
<b>Sub total</b>	<b>88</b>	<b>-</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>20</b>	<b>34</b>	<b>6</b>	<b>172</b>
<b>Demolition</b>										
Rentable	70	-	95	3	17	3	57	6	-	251
Leasehold	8	-	33	-	-	-	10	-	-	51
Freehold	-	-	-	-	1	1	1	-	-	3
<b>Sub total</b>	<b>78</b>	<b>-</b>	<b>128</b>	<b>3</b>	<b>18</b>	<b>4</b>	<b>68</b>	<b>6</b>	<b>-</b>	<b>305</b>
<b>Total</b>	<b>166</b>	<b>-</b>	<b>152</b>	<b>3</b>	<b>18</b>	<b>4</b>	<b>88</b>	<b>40</b>	<b>6</b>	<b>477</b>

## 2. New build dwellings

	Dwelling type and size									Total
	Flat		Mais.	Bungalow			House			
	1 bed	2 bed	3 bed	2 bed	3 bed	4 bed	3 bed	4 bed	5 bed	
Rentable	70	65	9	-	-	-	70	18	19	251
Affordable home ownership	8	20	10	-	-	-	15	1	-	54
Outright sale	98	89	-	-	-	-	-	-	-	187
<b>Total</b>	<b>176</b>	<b>174</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85</b>	<b>19</b>	<b>19</b>	<b>492</b>

## Public Open Space:

By developing the open space in tandem with the housing, huge benefits accrue to each. The existing open space (Mostyn Gardens) can be reprovided in the form of a more conventional park, with new housing overlooking from at least three sides. The relocation of the open space, on the other hand, allows the early phases of the replacement housing to be built on open space, which offers the possibility of a single decant for residents moving from properties earmarked for demolition into new housing very close to their existing homes.

## Roads:

The current modelling assumes that the roads will be adopted on completion and hence the PFI contractor passes the responsibility for maintenance to the local authority once they are constructed. The roads are costed on the basis that they will be built to adoptable standards. The advantage of adoption is that all of the legal attributes of a public highway would prevail, allowing for example simpler mechanisms for dealing with illegal parking and the removal of abandoned vehicles. It would also assist in doing away with the identity of the area as a mono tenure estate; if people are to have street addresses rather than estate addresses, then logically the street on which they live should be adopted.

There are disadvantages to adoption however, if it removes the long-term maintenance liability from the PFI contractor. The risk involved is considered relatively slight – the local authority has long-standing procedures for inspecting roads intended for adoption, and would not accept them until sound and complete. Also, it is in the nature of road construction that there is little room for hiding poor quality construction work. It does, however, open up a liability interface between the PFI contractor and the Council for the duration of the contract.

The Council will therefore be investigating this issue further, to see for example whether it is possible to adopt the roads and secure the associated status advantages, while securing a warranty and back-to-back service contract with the PFI contractor so as to leave construction liability, maintenance and street cleaning with a single provider.

While the scheme as submitted excludes the maintenance and street cleaning from the scope of the PFI contract, the modelling has been run with these items included. There is a relatively small length of roadway involved and the cost of including it increases the unitary charge by only £19,000 per year. This is entirely revenue cost as there are no life-cycle costs on roadways of this type within the first 25-30 years. There is therefore no implication for the PFI credit requirement, and the cost of maintenance and cleaning is virtually the same to the authority whether this is within the PFI contract or not.

***Management:***

The PFI contractor would manage all aspects of the redeveloped area, including the park and community facilities as well as the housing. This should enable a seamless neighbourhood management approach to be developed which will optimise the benefit of the investment in infrastructure.

***Diversity of Tenure:***

The demolition and re-provision option releases land (the current estate is relatively low density) to build additional units for sale, generating necessary funding for the regeneration and also improving the economic base of the resulting community.

***Sustainability:***

The large-scale re-provision of housing gives the opportunity to build in environmental sustainability, reduced CO2 emissions, waste management, etc. It may also provide the opportunity to lever in additional funding to provide the level of facilities infrastructure which is essential to the health and sustainability of a community which will remain heavily weighted towards the affordable housing sector.

## **2.10 Buy-Back of Leasehold Units:**

The Council will need to purchase the leasehold properties within the blocks to be demolished in order to implement the PFI project. The finances of this operation are not shown within the modelling for the PFI and are set out below:

### ***Estimation of the cost of lease/freehold repurchase***

The cost of repurchase of the 54 lease and freehold dwellings on the estate has been taken with regard to current and past RTB applications and the un-discounted valuations provided by Lambeth. These valuations, the date of which ranged from 2<sup>nd</sup> quarter 2002 to 3<sup>rd</sup> quarter 2004, were uplifted to a common base of 3<sup>rd</sup> quarter 2004 using data from the Land Registry for price increases for houses, flats and maisonettes in Lambeth. Uplifts from 3<sup>rd</sup> quarter 2004 to 2<sup>nd</sup> quarter 2008 were taken using an assumed nominal growth rate of 5% per annum. The resulting valuations used in the consideration by Lambeth of the affordability of this non-PFI funded element of the scheme are as follows:

Dwelling type	Nr.	Valuation at 2 <sup>nd</sup> qtr 2008
1 bed flat	8	£180,075
3 bed maisonette	33	£180,075
3 bed house	11	£216,090
3 bed bungalow	1	£228,165
4 bed bungalow	1	£252,210

Note. The comparatively low valuation for the 3 bed maisonettes is a result of their location within the blocks which have received little significant capital investment to date.

An additional 10% of the value has been added to the cost of repurchase to reflect the statutory homeloss payments that may be required if the properties are purchased using CPOs. The total cost of repurchase of the 54 lease/freehold properties is estimated at £11.2 million including 10% homeloss allowance at 2<sup>nd</sup> quarter 2008 prices. This sum rises to £12.4 million as the repurchases are phased to align with the anticipated demolition and redevelopment programme.

### ***Estimation of receipt from the development of housing for sale***

Property consultants Savills advised the Council on the anticipated sales values for dwellings of different types and sizes to take into account the proposed redevelopment of the estate.

The valuations assumed in the modelling are as follows:

Dwelling type	GIFA (m <sup>2</sup> )	Gross OMV at 2 <sup>nd</sup> qtr 2008
1 bed flat	50	£201,180
2 bed flat	63	£245,910
3 bed maisonette	85	£295,995
3 bed house	115	£441,840
4 bed house	126	£469,035

The calculation of the net receipt generated from these values assumes sales costs of 3% and deductions for risk and overheads of 6.5% OMV. These values are taken from other developments where the development partner comprising the RSL and developer is responsible for delivering both the affordable and private elements of the scheme. The development of 187 dwellings for outright sale delivers a mean net receipt of £56K per dwelling on current assumptions, also assuming that there is no requirement for the developer to purchase the land.

The development of housing for affordable home ownership has been initially modelled assuming purchase values of 60% OMV with no rent or charge payable on the remaining equity share. At this level the income from the sale of these dwellings is broadly sufficient to meet the cost of development, again on the assumption that there is no requirement to purchase the land.

The estimated total receipt generated by the development of housing for outright sale of £10.5 million (187 units at £56,000 each) will provide the majority of the funding required for the cost of repurchase. The remainder and any excess arising from additional repurchase costs, including any legal costs associated with CPOs, are to be covered by the Council, using £2.9 million allocated from within the Capital Receipts Pot, which has been earmarked for the Myatts Field North scheme, which is set out **Appendix 2.4**.

## **2.11 Role of the Tenant Management Organisation**

Since April 2004, the estate has been managed by a TMO which provides virtually all housing services. The TMO was initially interested in continuing to provide some services once the PFI contract was signed, but following detailed soft market testing in relation to this possibility, the Council remained convinced that the risks and potential costs involved did not represent good value. The TMO has therefore agreed that it will relinquish all provision of services under the PFI in favour of adopting a long term client-side role in managing the contract, see section 11.3 for a more detailed explanation of this.

## **2.12 Existing Condition and Suitability Issues**

As has been demonstrated above, the rehabilitation of the properties which were not improved under Estate Action funding would not solve many of the most serious problems experienced by residents of the estate. This approach would therefore represent poor value for the investment required – see **section 3** for detailed analysis of this. The investigation of the condition of the stock has therefore focussed on the improved properties, while information on the condition of the unimproved homes has relied largely on the stock condition surveys undertaken as part of the whole-stock condition survey undertaken in 2003.

For the improved properties, which it is intended to retain, further survey work has been undertaken. The purpose of the survey was to provide a reasonable degree of

confidence in estimating the cost of compliance with the PMS. The survey was structured in such a way as to ensure that sufficient data would be collected to enable estimates to be prepared. It is recognised that additional information will be required before a contractor is appointed including, for example, asbestos and demolition surveys, mechanical and electrical testing and site and soil investigation.

### ***Form of survey***

The survey was completed during July 2004 and comprised surveys of both the exterior and common parts of buildings and the interior of dwellings. The exterior of all of the 22 blocks were surveyed, along with associated common parts where applicable. A sample of 57 individual dwellings from all buildings were surveyed, representing 42% of the rented dwellings to be retained and refurbished.

### ***Results of Survey***

A report was produced for each block exterior and each dwelling accessed and an example of each of these, together with a summary showing the anticipated level of works required both to the exterior and also the dwellings, these are included in **Appendices 2.5 – 2.7**. The results confirmed that the envelope and security works carried out under Estate Action were successful in securing a significant further life for these dwellings. The exteriors are generally in a good condition with repairs mainly required to rendered walls and perimeters of windows. A small number of isolated repairs are necessary to other elements.

Within the dwellings the surveys show that not much work has been carried out in recent years and a significant amount of upgrading will be necessary to bring the homes up to the Decent Homes standard. This work will predominantly involve replacement of kitchens, bathrooms and re-wiring of electrical installations. In addition repairs will be required to heating installations mainly in the form of replacing boilers as well as a certain amount of work in repairs to doors and some sundry isolated defective plasterwork and joinery.

The refurbishment works to those blocks and dwellings to be retained includes works which will ensure that the dwellings meet the standard in full i.e. are not considered “Decent” whilst still experiencing partial failures against sub-criteria. The standard used removes the requirement of the Decent Homes standard that many elements have to be considered “old” and “poor” in order to fail and replaces this with a proper consideration of condition and fitness for purpose irrespective of age. This approach means that many works otherwise not required to meet the Decent Homes standard are included in full e.g. full replacement works to kitchens, bathrooms, heating and electrical installations.

Additionally works include:

- Repairs to internal fabric of the dwellings
- Replacement of internal doors (where not appropriately fire resisting)
- Works to improve dwelling and block security including controlled entry systems and improved door security
- Works to external environment.

## 2.13 Project Objectives

The rationale and context described above give rise to the specific project objectives set out below:

- To provide high quality homes which meet or exceed Decent Homes standard, through further investment to properties already improved under Estate Action funding, and through demolition and re-provision of properties where rehabilitation does not represent good value for money.
- To create an environmentally sustainable community with significantly reduced CO2 emissions and major inroads into fuel poverty.
- To remove those design features of the existing housing which contribute markedly to the lack of security and personal safety experienced by residents, principally the underground garages, the walkways, the screened access to individual entrances, the lack of hierarchy of routes, unsafe open space, etc.
- To create a traditional street pattern with the new housing, comprising the maximum number of terraced houses with gardens which funding and space constraints will permit. As far as possible to bring the retained housing into comparable streetscapes through the addition of strategically placed additional units to provide a street grid and to close off exposed rear gardens.
- To design out crime so far as possible and to create a sense of security as well as actual safety for residents.
- To create a hierarchy of streets which will provide safer pedestrian routes through the housing, and allow the better integration of local vehicular traffic, and the discouragement of rat-running.
- To replace the existing poor quality, unsafe and underused public open space with a high quality park which will serve the needs of the new and improved housing, as well as the residents of the ward more generally. This will integrate into the Council's open space strategy to create a network of linked public open space, which will bring economic activity into the wider area, and change the public perception of this part of the Borough.
- To replace the existing tenants' hall with community facilities of at least comparable size. Initial discussions have been held with potential bidders over how the PFI contractor could accommodate additional funding levered in to expand this provision.
- To provide integrated neighbourhood management of all aspects of the redeveloped area – housing, park and community facilities.
- Through internal decanting and schemes to retain leaseholders, to largely keep the existing community intact, and thereby retain the high levels of mutual support and cohesiveness displayed by residents, along with their commitment to living in this area.
- To diversify tenure and thereby increase the range of economic power within the community.
- To use the opportunity for reviewing the arrangement of land use in the area to provide alternative sites for other regeneration partners with capital programmes to replace existing facilities (schools, health centre, etc) – see 2.14 below.

- To use the physical development to assist with economic regeneration and to provide a focus for personal capacity building, skills training, etc.
- To change the ethos of the area, so that residents are no longer associated with an estate, but have an identity based on a street address, which will be free from the negative connotations and stigma previously suffered.

## **2.14 Opportunities for integrated re-development/added value**

All of the partner agencies in the immediate area have imminent capital investment programmes. The local primary school has DfES funding to rebuild, and the health centre is due to be re-provided under the LIFT programme. The local girls' secondary school is likely to be rebuilt in a similar time frame under Building Schools for the Future programme, and thirdly a private company is contracted by Social Services to provide new extra-care housing for the elderly. Opportunities exist therefore to optimise these investments by offering land swaps which will provide either better locations for these facilities, or avoid wasteful temporary decants of the services.

In order to benefit from this unique opportunity for joined-up provision, but without subverting the masterplanning role of the housing PFI contractor, the Council has embarked on a process of consultation and negotiation with all stakeholders in the area to agree an Urban Design Framework (UDF). This will establish the optimum land use and inter-relationship between facilities. It will not only allow partners with early spend commitments to move ahead, but by the time that bidders are required to produce detailed proposals, the UDF will be enshrined in Supplementary Planning Guidance, which will provide a degree of confidence around outline – and in due course detailed – planning consents for the preferred bidder.

While the Council is determined to achieve the added value which the UDF can deliver across a range of services, it is equally determined that this will not constitute a risk factor in the delivery of the Housing PFI. The Council owns virtually all the land in the redevelopment area and at all stages of the development of the UDF, consultants are ensuring that there are “default” land use plans which could deliver the area of land required by the PFI contractor. This land is in locations which would ensure that the project objectives could be achieved within the constraints imposed by the planning and other regulatory frameworks.

# Option appraisal - Determination of preferred scheme

## 3.1 Introduction

A detailed option appraisal has been carried out for Myatts Field North to determine the most appropriate option in respect of what physically should happen to the housing stock. A summary of the options considered, appraisal process, and results is provided over the following pages (a full copy of the Option Appraisal which includes the full detail of the monetary and non-monetary appraisals is available upon request).

The development of a scheme for the estate began in the early 1990's ahead of the application for support from the Estate Action programme. During this time the Council considered a range of options which would achieve the specific objectives of remedying physical and design defects, tackling the problems caused by the disused underground garages, restoring a streetscape and tackling a range of physical-routed social problems. In addition to these objectives the Council used the criteria for the Estate Action programme in developing proposals which include physical improvements, improved housing management, tenure diversification, leverage of private sector resource, and estate based training & enterprise initiatives.

In the period since the initial Estate Action works the options proposed for Myatts Field North have been reviewed and refined to reflect changes in developing objectives and of housing policy e.g. the introduction of the Decent Homes standard as an alternative, intermediate refurbishment standard. The options developed in response to these are described below and reflected in the revised option appraisal.

The appraisal considered a total of five options developed in response to the objectives of the Council, residents and wider stakeholders. Each option provided the same amount of affordable housing and ranged from "do nothing" to options including the demolition and replacement of some or all of the housing. To ensure a thorough and balanced appraisal the process included both monetary and non-monetary factors to determine whether, say, any option which represented the greatest monetary net-benefit (or least cost as may be the case) also offered the greatest opportunity to meet the objectives of the project.

The list of five options considered represents something in between a long and short list as options previously considered and discounted have been updated in respect of dwelling numbers and capital/revenue costs and included to ensure a proper and full appraisal is undertaken.

## 3.2 Options considered

### ***Option 1 – Do nothing***

The do nothing option provides for the minimum level of works that are considered necessary to keep the housing habitable in its present form for a maximum of 10 years. No new capital expenditure is involved and the housing is progressively run down over the 10-year period, as it becomes more difficult to manage, maintain and to re-let. The existing housing that has already been the subject of major external works is assumed to continue to be available.

### ***Option 2 – 100% refurbishment to Decent Homes Standard***

This option provides for all housing to be refurbished to the Decent Homes standard as defined by Government over a period of 2 years followed by necessary improvements and further repairs beyond year 10.

### ***Option 3 – 100% refurbishment to Decent Homes Plus Standard (DH+) including remodelling of deck blocks***

All housing would be refurbished to a “Decent Homes Plus” standard which includes for substantial repair and replacement of elements which are not included or are not deemed to fail the Decent Homes standard. Additional improvements to blocks, dwellings and the estate environment are included. The works under this option would include an approach to dealing with the problems presented by the underground car parking within the deck blocks.

### ***Option 4 – 36% refurbishment to DH+, 64% replacement and 187 new homes for sale***

This option includes for the refurbishment to “Decent Homes Plus” Standard of a proportion of the housing, as described under Option 3, and for the demolition and replacement of the remainder of the dwellings. A number of new private sale dwellings are included to provide additional capital subsidy. Note this option includes for the demolition of the existing un-remodelled deck blocks with underground car parking.

### ***Option 5 – 100% demolition and replacement, 212 new homes for sale***

This option includes for the demolition and replacement of the entire estate. In addition a number of new build dwellings for private sale are included.

## 3.3 The options in summary

The numbers of dwellings included within each option are summarised in the table below:

	Option							
	2		3		4		5	
	Nr	%	Nr	%	Nr	%	Nr	%

Refurbishment to DH								
Affordable Rented	385	81	-	-	-	-	-	-
Private Leasehold	71	15	-	-	-	-	-	-
Private Freehold	21	4						
Refurbishment to DH+								
Affordable Rented	-	-	385	81	134	28	-	-
Private Leasehold	-	-	71	15	20	4	-	-
Private Freehold	-	-	21	4	18	4	-	-
Demolition								
Affordable Rented	-	-	-	-	251	53	385	81
Private Leasehold	-	-	-	-	51	11	71	15
Private Freehold	-	-	-	-	3	1	21	4
New build								
Affordable Rented	-	-	-	-	251	-	385	-
Affordable Home Ownership	-	-	-	-	54	-	92	-
New build Private Sale	-	-	-	-	187	-	211	-
<b>Total dwellings (after demolition)</b>	<b>477</b>		<b>477</b>		<b>664</b>		<b>688</b>	

### 3.4 Monetary cost / benefit appraisal

This element of the appraisal considers the costs and benefits of each option that can be expressed in monetary terms over a 30-year period.

A detailed financial model has been prepared for each of the options. This has required the estimation of the different proposals including the preparation of cost plans for the repair and improvement and redevelopment of the estate along with assessments of the future revenue income and expenditure incurred through the operation of the estate following the implementation of the works.

The results of both the monetary appraisals are given below:

Monetary Cost & Benefits Summary of Discounted Values	Option				
	1	2	3	4	5
<b>All figures in £'000s</b>					
<b>Costs - Capital</b>					
Improvements/Repairs	-	24,849	29,410	15,681	9,381
Environment and infrastructure	-	-	883	10,937	14,586
Demolition	-	-	-	4,466	5,014
Community facilities	-	-	-	692	2,781
New Build - For Rent	-	-	-	32,052	47,063
New Build - For Sale	-	-	-	27,563	29,335
Fees/Project Management/Site Supervision	-	2,550	4,198	15,635	19,054
Home Loss & Disturbance/Re-housing Costs	9,156	-	-	1,331	2,081
Market Value of Properties Demolished	-	-	-	37,067	82,788
<b>Costs - Revenue</b>					
Rent Loss	15,788	27,695	27,695	27,695	27,695
Management/Maintenance	4,424	14,345	14,345	14,628	14,802
Other	53	-	-	1,955	2,738
<b>Costs - Opportunity</b>					
Dwelling Loss	68,621	-	-	76,318	119,356
Repurchase of RTB's	12,131	-	-	9,375	15,964
<b>Total Costs</b>	<b>110,173</b>	<b>69,439</b>	<b>76,531</b>	<b>275,394</b>	<b>392,639</b>
<b>Benefits - Capital</b>					
Market Value of New Units	-	-	-	100,375	144,852
Increased Market Value of Retained Units/Land	-	3,644	5,370	6,246	-
<b>Benefits - Revenue</b>					
Enhanced Rental Income	-	27,795	27,795	28,313	28,630
Management & Maintenance	5,036	16,052	16,052	16,052	16,052
Energy Savings	355	227	227	1,695	2,528
Other	-	691	691	691	691
<b>Benefits - Opportunity</b>					
Dwelling Gain	-	-	-	123,109	172,403
<b>Total Benefits</b>	<b>5,392</b>	<b>48,409</b>	<b>50,134</b>	<b>276,482</b>	<b>365,156</b>
<b>Net (Cost)/Benefit</b>	<b>-104,782</b>	<b>-21,030</b>	<b>-26,396</b>	<b>1,087</b>	<b>-27,483</b>

### 3.5 Non-monetary appraisal

Whilst the monetary appraisal will identify the option with the highest benefit or lowest cost, it alone is not sufficient to consider the qualitative benefits of any option that may have been the initial reasons for considering change or action. The non-monetary appraisal considers these qualitative impacts both in terms of costs and benefits. The factors considered in the non-monetary are shown alongside the scores (after weighting) below:

<b>Non-Monetary Costs &amp; Benefits</b>	<b>Option</b>				
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
(Highest scores best for benefits; lowest scores best for costs)					
<b>Costs</b>					
Disruption to residents	25.00	21.25	18.75	14.75	12.50
Impact on existing community	25.00	5.00	5.00	9.80	12.50
Loss of affordable housing	40.00	0.00	0.00	0.00	0.00
Political cost of previous public sector investment	2.00	1.00	0.00	2.00	10.00
<b>Total Costs</b>	<b>92.00</b>	<b>27.25</b>	<b>23.75</b>	<b>26.55</b>	<b>35.00</b>
<b>Benefits</b>					
Improved homes	0.00	7.00	17.00	18.92	20.00
Improved public and private external areas	0.00	0.00	7.50	12.30	15.00
Improved parking	0.00	0.00	1.00	3.56	5.00
Improved road layout	0.00	0.00	0.00	3.20	5.00
Improved security, reduction in fear of crime and vandalism	0.00	1.25	2.50	4.10	5.00
Potential to reduce health problems	0.00	2.50	4.25	4.73	5.00
Improved appearance, image and reputation of estate	0.00	0.50	2.50	3.46	4.00
Improved community facilities	0.00	0.00	0.00	0.10	0.10
Enabling reprovision of wider services incl education and health	0.00	0.00	0.00	0.10	0.10
Creation of sustainable community incl diversification of tenure	0.00	0.00	0.00	6.39	10.00
Likelihood of attracting investment	0.00	1.50	7.50	9.10	10.00
<b>Total Benefits</b>	<b>0.00</b>	<b>12.75</b>	<b>42.25</b>	<b>65.95</b>	<b>79.20</b>
<b>Net (Cost)/Benefit</b>	<b>-92.00</b>	<b>-14.50</b>	<b>18.50</b>	<b>39.40</b>	<b>44.20</b>

## 3.6 Parties involved

The preparation of the option appraisal has involved all of the partners to the project including the residents, and members of the steering group including the London Borough of Lambeth, Levitt Bernstein Architects and Frost Associates (cost consultants).

## 3.7 Conclusion

The results of the appraisal have demonstrated that Option 4 shows both the greatest monetary and second greatest non-monetary net benefits.

The combination of the two elements of the appraisal show that whilst Option 5 scores higher than 4 in the non-monetary appraisal cases this marginal preference is insufficient to overcome the significant difference in monetary costs.

The overall results of the appraisal are on the following page:

Rank	Score	Option	
1 <sup>st</sup>	98.2	4	<b>36% refurbishment to Decent Homes Plus (DH+) standard, 64% demolition and replacement, 187 additional dwellings for Private Sale (PS)</b>
2 <sup>nd</sup>	86.5	5	100% demolition and replacement, 212 additional for PS
3 <sup>rd</sup>	77.6	3	100% refurbishment to DH+ including remodelling of deck blocks
4 <sup>th</sup>	68.0	2	100% refurbishment to Decent Homes standard
5 <sup>th</sup>	0.0	1	Do nothing

# Public Sector Comparator & Value for Money

## 4.1 Quantitative Assessment

In line with guidance produced by ODPM, the 4Ps and HM Treasury, the financial elements of the OBC comprise the following:

- i. A thorough assessment of the capital and operating costs of the preferred scheme identified through the option appraisal
- ii. An assessment of the value for money of delivering the project through the PFI route in comparison to the scheme being delivered by the public sector
- iii. An assessment of the value for money of delivering the project through the PFI route in comparison to the scheme being delivered through stock transfer to an RSL
- iv. A calculation of the level of PFI credit to support the capital costs
- v. An assessment of impact of the scheme procured through PFI on the Council and the extent to which the scheme is considered affordable

Item I, is presented using a project specific detailed cashflow – see 4.2 below.

Item ii is presented using the HM Treasury Quantitative Evaluation Spreadsheet – see 4.3 below.

Items iii, and iv are presented using ODPM's HRA PFI model (version 4) – see 4.4 below.

Item v is assessed through the preparation of a shadow bid model and an affordability model – see 4.5 and 4.6 below.

### 4.1.1 The preferred scheme and the Public Sector Comparator

The option appraisal identified option 4, comprising elements of both redevelopment and refurbishment. The option is described in more detail below:

#### ***The scheme***

The overall scheme for the estate includes the:

#### **Enabling works for the:**

- i. Decanting and rehousing of existing tenants on and offsite as the new build programme progresses
- ii. Repurchase of existing lease and freehold dwellings

**Initial capital works for the:**

- iii. Retention and refurbishment of 134 rented dwellings, and 38 lease and freehold dwellings – the refurbishment programme excludes internal works to leasehold properties and all works to freehold properties
- iv. Demolition of 251 rented homes and 54 lease and freehold dwellings
- v. New build of 251 rented dwellings
- vi. Removal and re-provision (in an alternate location) of the Public Open Space currently centred on Mostyn Gardens)
- vii. Demolition of the existing community facility and replacement with a similar facility (note the demolition of the existing facility is required to enable the redevelopment of the housing)
- viii. New build of 54 dwellings for affordable home ownership
- ix. New build of 187 dwellings for outright (private) home ownership

**Ongoing service to provide the management, maintenance and cyclical repair (lifecycle) for the:**

- x. Refurbished and new build Housing (including any housing amenity land)
- xi. Public Open Space
- xii. Community facility

***Whole life cost (and income) model for the preferred scheme***

As described above, a detailed project cashflow has been prepared comprising estimates of the expenditure and income relating to the above activities.

Estimates for the cost of enabling works (items i and ii) have been prepared using information held by Lambeth regarding current valuations of properties on the Estate taken from valuations carried out as part of the RTB process. The cost of relocation of tenants is estimated with reference to statutory homelessness requirements and experience of disturbance payments from other phased regeneration projects.

The estimates of the costs and income of the initial capital works (items iii to ix) have been prepared by the Council's cost consultants, Frost Associates. The estimation of the cost of refurbishment (item iii) has been prepared following the completion of a stock condition survey, also carried out by Frost Associates, to determine the current condition of the housing and the extent of refurbishment required to reach a standard similar to the "Decent Homes Plus" standard that has been applied elsewhere within the Borough. Estimates for the cost of capital works for the new build elements (v., to ix.) have been prepared using information provided by Levitt Bernstein for the likely specification for the new build housing and for an indicative replacement for Mostyn Gardens and a replacement community facility.

The estimates of the cost of repair and refurbishment have been taken in reference to the information available and with regard to similar works to housing of this type and age in respect of additional works for asbestos removal, M&E services etc.

The unit cost of new build dwellings used in the build up to the cost shown in Appendix 4.1 “MFN Model Inputs” is given below:

Dwelling type	GIFA (m <sup>2</sup> )	No.	Build cost at 2 <sup>nd</sup> qtr 2008 £
1 bed flat	50	70	100,600
2 bed flat	63	65	114,200
3 bed maisonette	85	9	140,800
3 bed house	115	70	170,600
4 bed house	126	18	183,400
5 bed house	155	19	216,400

Note. Mean build cost per dwelling includes for external works within the scheme of dwellings and wheelchair users adaptation of 10% ground floor dwellings. Costs exclude fees and development team on-costs.

The indicative redevelopment proposals against which the estimates have been prepared have taken account of the existing services on site in respect of major diversions etc.

At the time of writing the Output Specification has not been fully completed as detailed later in this OBC. In order to enable the OBC to be submitted the estimates have been prepared using the elements of the Output Specification presently available (whether in output or input format) and with reference to other comparable schemes for which the specification is considered to fulfil the requirements of the Council and which provides a reasonable view of how a contractor might interpret and meet the likely Output Specification.

Comparable schemes where environmental specification and sustainability key criteria include:

- Holly Street phase 6B (specification developed in conjunction with Levitt Bernstein),
- Ocean Estate (recently secured ODPM Gap funding and included works to raise environmental performance of new build)

Also in reference to cost consultants’ internal database of projects currently completed, in delivery and in procurement.

Some of the key points of the specification that are not covered by the conventional requirements of building regulations for the affordable housing include:

- Dwelling to achieve EcoHomes “Excellent” rating

- Compliance with Lifetime homes standard
- Flexibility and design to enable fitting or retro-fitting solar thermal and/or photovoltaic collectors
- Orientation and glazing designed to ensure minimum area of usable solar gain
- Dwellings to achieve “Secure by Design” standard.

In accordance with ODPM and 4Ps guidance to date, the Output Specification will be developed in such a manner as to comprise genuine outputs which allow *“new ideas about the design, refurbishment/construction and operation of a Housing scheme to flourish. The emphasis that the PFI process places on outputs should encourage innovation in design refurbishment and operational methods.”*

To this end, the extent to which, for example, modern or traditional methods of construction are specified is limited. The manner in which the bidders are encouraged to innovate is a key element of the part of the ITN and the appropriateness of the pure “output” driven specification and its ability to deliver meaningful innovation in the context of a competitive procurement process will be determined in the development of the ITN. The extent to which bidders are proposing innovation in response to the ITN and the extent to which any innovative or novel proposals are both deliverable and affordable will form an important part of the bid evaluation process.

In respect of the additional demolition and site and soil investigation information, the estimates of the cost of demolition and clearance make allowances for a level of additional expenditure incurred due to the presence of asbestos and other materials based on experiences of redevelopment of brown field sites of this type. It should be understood that at this stage all estimates of capital cost are exactly that, estimates. Indeed whilst the OBC aims to take a reasonable view of how a competitive market will respond to the requirements of the ITN there is a risk that the view taken with regard to any or all inputs and assumptions including both capital and revenue costs, indexation etc will not be shared by the market. As stated in section 5 of this OBC, should any of those assumptions (or a combination of them) not be shared by the market, then the Council will look to mechanisms such as value engineering to reduce the negative impact on scheme finances. However, it is recognised that ultimately a review of the outputs which can be achieved and even the scope of the project may have to be undertaken to reach a situation where the project can proceed.

With particular regard to the asbestos and site & soil investigation it is the Council's intention to undertake/commission these surveys following OBC approval and in sufficient time for the information to be available for inclusion in the ITN. From desktop information regarding the previous uses of the site, the evidence is that the Myatts Field North area has been used only for housing and no historical industrial usage has been identified. It is therefore anticipated that any contamination that may be discovered within the ground will be at a level normally associated with housing use and cost allowances of £1.45 million have been included to reflect remediation measures to deal with this.

The estimates of the ongoing costs of management and maintenance for the preferred scheme have been prepared using information relating to the current costs of management & maintenance for the estate, with reference to efficiencies/savings

achieved by landlords following refurbishment or rebuild and to other projects that incorporate elements of the preferred scheme i.e. open space including play and sports facilities.

The cost of lifecycle repair/renewal has been prepared using a detailed programme of future works based both on the indicative lifecycles for building and dwelling elements and in relation to the initial capital works proposed particularly for the refurbishment element.

The later analysis including the testing of the affordability for the Local Authority of the PFI scheme and of the enabling works (see note below regarding expenditure eligible for PFI credit) requires the preparation of estimates regarding income to the Council that is anticipated to be available. Projections of rent levels and management & maintenance allowances have been prepared and the income generated by the development of housing for sale has been estimated with reference to sales values provided by Savills for the site and to profit margins achieved on comparable developments including development partners.

### ***Risk adjustment for capital and revenue costs***

In preparing estimates of both capital and revenue expenditure the cost of risk transfer has been considered as below:

#### **Capital expenditure**

Whilst it is understood that there is a cost of the risk transfer relating to the capital costs it is felt that the delivery of both refurbishment and new build housing projects is something that the market is particularly comfortable with. The most significant area of additional risk will arise from the degree of innovation required and in this regard, as described earlier, whilst the Council is keen to seek innovative and novel ideas from bidders, the ITN and selection process will ensure that that it is both deliverable and affordable. With these thoughts in mind the estimates of capital expenditure have been risk adjusted upwards by 5%.

#### **Revenue expenditure**

It is felt that the greater area of risk transfer relates to the ongoing revenue expenditure. To this end the starting point of the actual current costs of management and maintenance have been increased from approx. £1,700 to £2,200 per dwelling per annum (during 2004/05) following discussion with both the Council's Housing Finance department to identify any additional hidden costs, and research into comparable projects. This included discussion with the 4Ps, information available from other contemporary projects, and more general information such as Housing Corporation statistics on RSL costs.

### ***Capital expenditure eligible for PFI credit***

Whilst the wider project comprises those activities detailed above ODPM have indicated that PFI credits cannot be used to cover the cost of repurchase and relocation (the "enabling works") and as a result these costs will need to be funded by the Council (see

section 2.9). To mitigate the cost of this, the preferred option contains the development of the housing for affordable ownership and outright sale which will be used to provide a capital contribution to the Council whilst also contributing towards the objectives regarding tenure diversification.

In preparing the inputs and financial models required for the OBC, the cost of relocation and the capital receipt from the housing for sale has been removed from the assessments of value for money, PFI credit and affordability and has been considered separately to enable the Council to consider the potential capital affordability gap in addition to any revenue affordability gap that arises from the calculation of the Private Sector (Unitary) Charge.

These estimates of expenditure have been formulated into an indicative cashflow, included as **Appendix 4.1** (with explanatory note at **Appendix 4.2**), which has then been used to form the inputs to the ODPM, HM Treasury, shadow bid and affordability models. A summary of the main assumptions and inputs to the modelling in addition to the whole life costs is provided below:

### Key inputs and assumptions

<b>Programme</b>	
Contract start	2 <sup>nd</sup> quarter 2008
Contract duration	30 years
Major capital works duration	5 years
<b>Indexation</b>	
RPI	2.5%
Indexation of capital cost (above RPI)	2.5%
Indexation of operating costs (above RPI)	
Management	0.5%
Maintenance	0.5%
<b>Private Sector Cost of funds (real)</b>	5.78%
<b>Transfer Discount rate (real)</b>	7%
<b>PFI Funding</b>	
Gearing	90%
Sterling swap rate	5.2%
Credit spread (bps)	15
Bank margin (bps)	100
<b>Tax adjustment factor</b>	6%

The values for RPI and indexation of capital costs are taken in reference to short and medium term forecasts provided by HM Treasury (including its compilation of city forecasts), BCIS and also in reference to historic experience of business plans and tenders.

In order to estimate the Private Sector Cost of Funds (Real) for the ODPM HRA Model, the Real Project IRR (the Project Return) was estimated using a shadow bid model. The Project IRR is an estimate of the total cost of a project to the private sector.

The value for the Tax adjustment factor has been arrived at through following HM Treasury Supplementary Green Book Guidance on Adjusting for Taxation in PFI vs. PSC Comparisons.

#### **4.1.2 HM Treasury quantitative assessment of Value for Money**

The inputs prepared as described above for the eligible whole life costs have been used to populate the HM Treasury Quantitative Assessment model.

The capital and operating expenditures for the PFI option have been formulated as shown in **Appendix 4.1** (with explanatory note at **Appendix 4.2**) in order to ensure that the whole life costs of the scheme are properly represented in the model.

Alongside the whole life costs, values for pre-FBC Optimism Bias have been entered using those calculated by the ODPM HRA PFI model— the difference between values used at EOI and OBC stage for Optimism Bias is discussed under 4.4 below. Additionally values for the PFI funding costs have been provided by Deloitte in relation to the balance of capital and revenue expenditure within the proposed contract. The value for the PSC Tax Adjustment factor has been determined in reference to the HM Treasury supplementary Green Book guidance on “adjusting for taxation in PFI vs. PSC comparisons”.

**The key outputs from the HM Treasury model are:**

<b>Net Present Value of PFI:</b>	<b>-£143million</b>
<b>Net Present Value of PSC:</b>	<b>-£159 million</b>
<b>Indicative PFI VfM:</b>	<b>10.2%</b>
<b>Indifference points:</b>	
<b>PSC CapEx:</b>	<b>-13.1%</b>
<b>PFI Unitary Charge:</b>	<b>+12.8%</b>

The assessment of the preferred scheme has shown that delivery through PFI offers greater value for money than delivery through the Public Sector.

The indifference points show the percentage by which either the PSC Capital expenditure would have to reduce by or the percentage by which the PFI Unitary Charge would have to increase to result in both routes offering the same value for money. The values generated for this scheme are comfortably outside the indicative tolerances (margins of error) for these inputs, of -5% and +3% for PSC CapEx and PFI Unitary Charge respectively. Thus value for money is demonstrated with some degree of confidence.

An electronic copy of the HM Treasury Quantitative Assessment model is submitted alongside this document. The completed model is also included as **Appendix 4.3**.

### **4.1.3 Optimum Bias**

In the preparation of the Expression of Interest, values for Optimism Bias for both CapEx and OpEx were considered with regard to the extent to which, in particular the estimates of capital costs were based on adequate and full project knowledge. The level of Optimism Bias applied to the estimates reflected the uncertainty surrounding a number of contributory factors. Both the estimates of expenditure and the associated level of Optimism Bias have been revised following the more detailed work done in respect of the carrying out of a stock condition survey and statutory service investigations and the detailing of key areas of specification.

In particular the extent to which the following risks have been mitigated has been revised:

- Inadequacy of the business case
- Project management team
- Poor project intelligence
- Public relations
- Site characteristics.

**THE REVISED LEVELS OF OPTIMISM BIAS FOR THE PFI OPTION ARE 10.03% FOR CAPEX AND 10.17% FOR OPEX.**

It should be noted that the basis upon which the value of PFI credit is calculated has shifted from the Expression of Interest stage where Optimism Bias was included in the assessment of both Value for Money and the level of PFI credit to inclusion in the assessment of VfM only at OBC stage.

An electronic copy of the ODPM model included as **Appendix 4.4** and submitted as a zipped file.

### **4.1.4 Sensitivity analysis**

A number of scenarios have been run using the HM Treasury VfM Quantitative Assessment model to determine the extent to which changes to the assumptions made for a number of key inputs may adversely affect the extent to which the PFI demonstrates value for money against the PSC.

The inputs have been varied individually at first to enable subsequent scenarios combining multiple variations to consider the most adverse combination of individual changes.

The tables below set out the base inputs and results, the results of the individual and multiple input changes:

## Base scenario

Inputs	Value
1 General inflation	2.5%
2 CapEx escalator	5.0%
3 OpEx employment escalator	3.0%
4 Unitary Charge indexation	49.0%
5 Required loan rate of return	5.2%
6 Required equity rate of return	15.0%
7 Tax adjustment factor	6.0%
<b>Results</b>	
1 Indicative VfM	10.2%
2 CapEx Indifference Point	-13.1%
3 Unitary Charge Indifference Point	12.8%

## Individual Input Variations

Input	Value	VfM	CapEx IP	UC IP
1 General inflation	1.5%	5.1%	(6.6%)	6.0%
	3.5%	14.7	(18.9%)	19.7%
2 CapEx escalator	3.0%	10.3%	(13.5%)	13.1%
	7.0%	10.0%	(12.8%)	12.5%
3 OpEx employment escalator	1.5%	9.8%	(12.5%)	12.3%
	4.5%	10.7%	(13.9%)	13.4%
4 Unitary Charge indexation	40.0%	10.7%	(13.8%)	13.5%
	60%	9.5%	(12.3%)	11.8%
5 Required loan rate of return	4.7%	12.1%	(15.6%)	15.6%
	5.7%	8.2%	(10.6%)	10.1%
6 Required equity rate of return	13.0%	11.7%	(15.1%)	15.0%
	18.0%	7.7%	(9.9%)	9.3%
7 Tax adjustment factor	3.0%	7.9%	(10.1%)	9.6%

<b>9.0%</b> <b>12.4%</b> <b>(15.9%)</b> <b>15.9%</b>
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Note. “**result**” indicates an improvement in the result  
“*result*” indicates a worsening of the result

**Multiple Input Variations**

Inputs	Combination	
	Worst	Best
1 General inflation	1.5%	3.5%
2 CapEx escalator	7.0%	3.0%
3 OpEx employment escalator	1.5%	4.5%
4 Unitary Charge indexation	60.0%	40.0%
5 Required loan rate of return	5.7%	4.7%
6 Required equity rate of return	18.0%	13.0%
7 Tax adjustment factor	3.0%	9.0%
<b>Results</b>		
1 Indicative VfM	(3.8%)	20.6%
2 CapEx Indifference Point	4.8%	(27.1%)
3 Unitary Charge Indifference Point	(4.0%)	29.9%

The table demonstrates that in order for the assessment to find either that PFI does not clearly demonstrate not value for money or that the CapEx and Unitary Charge indifference points fall below the tolerance levels of +5% and +3% respectively, significant changes at the limits of the reasonably anticipated ranges are required. Indeed that in the event that the inputs transpired to most adverse combination of the sensitivities considered, that the assessment of value for money would be at worst, only marginally negative (3.8%)

## **4.2 Qualitative Assessment**

### **4.2.1 Viability**

#### ***Programme level objectives and outputs:***

It is clear from the increasing number of Housing PFIs which have reached financial close that operable contracts can be constructed for the provision of housing services over a long-term basis, that those services can be described in output-based terms which will allow the contractor's performance to be effectively assessed and the contractor held accountable for service delivery failures, and that there can be a substantial transfer of risk to the private sector, with that allocation of risk being well defined and enforceable.

#### ***Operational Flexibility***

The authority will be relying on standard documentation in relation to change mechanisms and has no evidence to suggest that these will not provide the flexibility required to adapt the services provided by the contractor over the period of the contract to meet changed circumstances. This is not a service which is susceptible to rapid change either in the expectations of the consumer, or in the technology associated with its delivery. Where change is required, it is likely that the contractor will share the authority's wish to adapt the service and therefore that change is unlikely to carry a significant risk cost.

The most likely area where changing circumstances may impinge is the environmental sustainability standards. The authority has therefore engaged specialist consultants to advise on how the contract can anticipate as far as possible the changes which can be foreseen and can accommodate for example changes in the energy market, or advances in waste management.

#### ***Equity, efficiency and accountability***

The implementation of a PFI on Myatts Field North flows directly from the strategy devised by the Housing Investment Commission set up by the Council in 2000 and which included the widest representation (members, tenants, leaseholders, etc). This strategy was refined in the Stock Option Re-appraisal approved by Executive and recently signed off by ODPM. The outputs of the PFI contract reflect the objectives of the Council and the tenant body in relation to the provision of housing services over the foreseeable future. Its implementation is essential to the delivery of those objectives across the entire stock. There are therefore no equity or accountability reasons which would conflict with the PFI route.

The authority has demonstrated that the PFI procurement is the most efficient method of delivering these services which is open to it. There are no legal or regulatory restrictions preventing the deployment of the PFI option.

There is a relatively small group of staff directly employed in the provision of the services which will pass to the PFI contractor. This is because a good deal of the services are currently contracted in. It is anticipated that those staff will be subject to TUPE regulations and will therefore not be disadvantaged by the proposal.

## ***Overall Viability***

Overall, the Council is satisfied that an operable contract with built-in flexibility can be constructed and that strategic and regulatory issues can be overcome.

### **4.2.2 Desirability**

#### ***Risk Management***

The project involves the purchase of a significant capital asset integral to the delivery of the service being contracted. The construction of housing units and the refurbishment of existing housing have traditionally been prone to significant cost and time over-runs. There are no operational aspects which would be vulnerable to the same degree of risk.

#### ***Innovation***

The output specification will allow considerable opportunity for innovation in the detailed design of the capital asset (the new-build element constitutes the bulk of the initial cap-ex costs). While the project's scope will be tightly defined in order to have clarity, simplicity and reduced private sector costs during the early stages of the procurement process, the authority will remain open to proposals from bidders for how the details of the project might be amended to provide improved outputs or better value for money.

#### ***Service provision***

Soft service provision is not currently in house since the management and maintenance of the estate has been in the hands of a Tenant Management Organisation since April 2004. While it has been concluded that leaving direct service provision with the TMO would be unlikely to provide best value for money, this leaves a group of trained and empowered residents whose skills and management experience can be directed to ensuring in the first instance that the output specification, payment mechanism, etc will deliver appropriate services to residents over the life of the contract, and in the longer term performing a role in monitoring the contract, facilitating liaison between PFI contractor and residents, and negotiating changes to the contract where these become necessary or advantageous.

#### ***Incentive and Monitoring***

The outputs of the project, both the standard of the accommodation and the quality of the management and maintenance services can be described unambiguously with relative ease. Indeed there is considerable experience within local authorities of defining and monitoring service performance standards. Clearly a PFI payment mechanism provides a very effective way of incentivising the service provider, not only in relation to SPS, but also in relation to the quality of the provision of the capital asset on whose availability the contractor's profit will crucially turn.

#### ***Lifecycle costs and residual value***

The integration of design, build and operation of the project is not only possible but also intrinsically advantageous. The contractor, in considering the quality of the design of the capital asset, will not only have to consider the maintenance a lifecycle

liability which will result from the original build quality, but also the management costs which will be associated with dealing with defects or recurring repairs, and the advantages of lengthening the cycle of replacement through the use of higher quality components in the first place. This incentive applies equally to the quality of repairs and of lifecycle replacements. The contract period proposed is 30 years, which is long enough to ensure the effectiveness of this incentivisation.

### ***Overall Desirability***

Overall, the Council is satisfied that PFI would bring sufficient benefits that would outweigh the expected higher cost of capital.

### **4.2.3 Achievability**

#### ***Transaction costs and client capacity***

The authority has already engaged skilled and experienced external consultants to provide specialist services required to deliver the procurement. At the same time, a procurement team has been recruited with a strong track record in procurement and commissioning and their knowledge and skills in relation to PFI procurement will be built up through a structured programme of formal and informal training. In this way, the authority will have the core skills and knowledge embedded within the organisation, improving project management and control by senior management, and reducing dependence on external advisors as the procurement proceeds.

Following submission of the OBC, the authority will start to consider how best to put in place an effective monitoring and liaison function for the long term, with particular reference to how the skills built up within the resident body through the S16 process can be harnessed to enhance the effectiveness of this function.

#### ***Competition***

It is clear from the earlier pathfinder projects that notwithstanding the unexpected levels of difficulty and delay, there are private sector operators able to come together to provide the services it is proposed to procure. The response to the soft market testing undertaken by the authority confirms that the sector retains their interest in this route. Those who have remained in the field are particularly encouraged by the development of standardised documentation and by the advent of new-build and mixed schemes.

While concerns remain regarding a small number of issues, particularly in the sphere of insurance costs, the market is clearly comfortable with the allocation of risk in general.

#### ***Overall Achievability***

Overall, the Council is satisfied that a PFI procurement programme is achievable, given client side capability and the attractiveness of the proposals to the market.

# 5 Affordability

## 5.1 Introduction

In order to confirm the affordability of the PFI scheme, an Affordability Model was constructed showing the cash flow for each year of the PFI contract. With the exception of the PFI subsidy, all costs and income were inflated over the period of the contract. The model is to be found as one of the sheets in the shadow bid model at **Appendix 5.1**.

The build-up of the various inputs to the Affordability Model are described below.

## 5.2 Income

### ***PFI Credit:***

The ODPM HRA Model was used to calculate the PFI Credit Requirement for Myatts Field North PFI. The PFI credit request of £114.6 million translates – using a pool rate of 6.0% - into an annual additional PFI subsidy of £8.33 million (see 4.4 above) and this was input into the Affordability Model.

### ***Management and Maintenance Budget:***

A detailed analysis was undertaken of the current income and expenditure in relation to the estate. This identified the income currently applied to the functions that would be passed to the PFI contractor. This included a rigorous assessment of central costs with a view to directing the maximum justifiable proportion of the income available to service the unitary charge. At the end of this exercise, the authority is confident that there is no further income within the HRA that could be applied to the PFI without a disproportionate share of retained central costs falling on the retained stock.

### ***Interest:***

As would be expected, there are considerable cash balances projected in the early years of the contract and the interest on these balances will be applied to the scheme and will mitigate the effect of negative cash-flow in the later years.

## 5.3 Expenditure

The Unitary Charge input into the Affordability Model was estimated by constructing a bidder model. The “Shadow Bid Model” – **Appendix 5.1** – assumes current private sector funding, tax and accounting structures. It also assumes sculpting of the Unitary Charge during construction, starting at 40% in year 1 of the contract. A contract debtor tax treatment has been assumed.

Some of the key input assumptions to the Shadow Bid Model are set out below:

<b>Input</b>	<b>Value</b>
Senior Debt Swap Rate	5.20%

Bank Margin During Construction	1%
Bank Margin During Operations	1%
Credit Spread + MLAs	0.19%
Subordinated debt rate	12%
Interest on Cash Balances	4.75%
Blended Equity Return (nominal)	15%
Proportion of Unitary Charge Subject to Indexation	49%

The model produces an NPV (at contract start) of the Unitary Charge over the 30-year contract term of £134.0m.

## 5.4 Affordability

A shadow bid model has been constructed to provide an estimate of the likely unitary charge which will result from a competitive procurement process. This has been used to develop an affordability model which predicts cashflow on a sinking fund basis over the life of the contract. Applying the capital inputs to the ODPM model results in a maximum PFI credit of £115.1 million. Whilst a credible case for this level of credits could be mounted, the authority, mindful of the increase in credits requirement from Expression of Interest stage, agreed that this OBC should be submitted on the basis of a request for PFI credits of £114.6 million. This level of subsidy results in net additional contribution required from the authority equivalent to £417k per annum at 2008/09. The Council has accepted that this level of support will be found in order that this important element of the Decent Homes Strategy may go forward.

This is in addition to the £2.9 million, which the Council is making available from the Capital Receipts Pot to fund the buy-backs without which the PFI scheme cannot proceed (see **Appendix 2.4**).

### **Annual Revenue Contribution**

The £417k per annum will include a contribution from the General Fund, the exact figure is subject to further decision within the Council. It is likely that the bulk of the revenue costs of managing and maintaining the park will be supported from the General Fund, as will the maintenance and street cleaning costs should it be decided that the new roads will be adopted (see 2.8). The anticipated mechanism is that a sinking fund will be set up from which unitary charge payments will be made, and that GF contributions will be made directly into the sinking fund.

## 5.5 Sensitivities

Sensitivities have been run on the following inputs to the Shadow Bid and HRA Affordability Models and to the HM Treasury Value for Money Model:

	<b>Base Case</b>
▪ Bank Ratios (Debt Service Cover Ratio)	1.2
▪ Building Inflation	5%
▪ Operating Cost Inflation	3%
▪ SPV Equity Return	15%
▪ Loan Rate of Return (Swap Rate)	5.2%

- General Inflation (RPI) 2.5%
- Proportion of Unitary Charge subject to indexation 49%
- Pool Rate 6.0%

The impact variations to these inputs have on the affordability and value for money positions are summarised below

<b>SENSITIVITY</b>	<b>VALUE</b>	<b>AFFORDABILITY GAP</b>	<b>VARIATION FROM BASE CASE</b>
Base Case		£417k	
Banking Ratio (ADSCR)	1.15	£338K	(£79K)
	1.25	£490K	£73K
Building Inflation	3%	£222K	(£195K)
	7%	£615K	£198K
Equity IRR	13%	£182K	(£235K)
	18%	£754K	£337K
Loan Rate of Return (Swap Rate)	4.7%	£282K	(£135K)
	5.7%	£543K	£126K
Opex Inflation	1.5%	£128K	(£289K)
	4.5%	£538K	£121K
RPI	1.5%	(£155K)	(£572K)
	3.5%	£1,088K	£671K
RPI with revised income inflation <sup>1</sup>	1.5%	(£37K)	(£454K)
	3.5%	£811K	£394K
UC Indexation	40%	£335K	(£82K)
	60%	£525K	£108K
Pool Rate	6.3%	£218K	(£199K)
	5.7%	£615K	£198K
Insurance	+£50K pa	£458K	£41K
Capex	+5%	£659K	£242K
Programme Slip	1 Quarter (1 <sup>st</sup> July 2008 Start)	£490K	£73K
New build for outright sale – increase in the number of properties	5%	£411K <sup>Note 1</sup>	(£16K)
	10%	£378K <sup>Note 2</sup>	(£39K)

Note 1 NPV of surplus at end 30 years at 2008/09 prices is £374K

<sup>1</sup> Inflation on M&M allowances, rental income and HRA/GF contributions adjusted to reflect revised RPI assumption.

Note 2 NPV of surplus at end 30 years at 2008/09 prices is £709K

The Council is submitting this OBC on the basis of the best information currently available in terms of prudent input assumptions and seeks to achieve the maximum outputs consistent with the central government subsidy available combined with the additional resources which the authority considers it prudent to apply.

Should any of those assumptions (or a combination of them) not be shared by the market, then the Council will look to one or more of the following options for ensuring that the project remains affordable within the agreed financial parameters:

- Utilise mechanisms such as value engineering to reduce the negative impact on scheme finances
- Review the output specification for the new build to ensure that this meets the reasonable expectations of the resident community, Council and ODPM;
- Increase the density of new build, within the framework provided by the Supplementary Planning Guidelines with a view to increasing the annual revenue available to Myatts Field<sup>2</sup>.

Item 2 and 3 were reported to the Project Board on 31<sup>st</sup> January 2006 and will also be raised in an Executive Meeting due to take place on 13<sup>th</sup> March 2006. This report will also request an increase in the annual revenue support for the scheme to £558K per annum<sup>3</sup>. Whilst this level of annual revenue contribution provides some contingency for mitigating the impact of some the risks set out above, the additional £141K would not, on its own, be enough to cover any significant increase in any one or more risks. The Council is cognisant of this and is preparing residents and members for the possibility of varying some of the additional features included in the base case to ensure the scheme remains affordable at Financial Close.

As part of this exercise the Council has commissioned Faber Maunsell to undertake an environmental options appraisal. The objective is to develop a common appraisal model that will establish an optimal solution for Myatts Field North within the predetermined financial framework. The model will include a baseline energy comparator (all dwellings meeting statutory requirements) to which the optimal solution can be referenced against to determine its value for money and affordability. It is intended that Faber Maunsell's work will allow Lambeth to be selective in choosing different technologies that firstly provide the required level of efficiency and secondly, can be delivered within the scheme's financial parameters. The base case includes £2.2 million for environmental sustainability work and this exercise will enable the Council to establish options for delivering an affordable scheme and maximising value for residents.

In the unlikely event that the above measures are not enough to mitigate the impact of risks outside of the Council's control then further revenue support could be available from the Council's Decent Homes contingency fund, which is currently showing a surplus at 2010/11 of £32m.

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2 Depending on optimum agreement/structure of the non-PFI element of this scheme, the increase in number of unit for private sale may generate a capital receipt or a reserve which is available for meeting shortfalls in revenue over the life of the scheme. In the event that a capital receipt is generated the Council will offset this against other capital schemes to create a set-aside reserve for the PFI scheme.

3 Minutes of this report will be available to the PRG.

The Council will also be seeking other funding sources for the park.

Post Financial close this scheme will be included in the Council's Business Plan along with other contractual commitments that the Council has and appropriate measures will be taken to plan, monitor and manage the impact of risks over the life of the contract.

## 5.6 Overall Affordability of the Scheme

The analysis presented above refers only to the viability of the PFI contract. There are in fact three aspects to the affordability of the scheme:

- 1) the comparison of the available income with the anticipated unitary charge, i.e. the affordability of the PFI contract itself
- 2) the comparison of the cost of buying out leaseholders and moving tenants with the resources available from sale of units and the Council's Capital Receipts Pot, i.e. the affordability of the enabling activities which will make the PFI contract possible
- 3) identifying the resources to monitor and manage the contract for the duration of the PFI.

No PFI credit is available for the enabling activities and so these costs/resources do not appear in the financial modelling. In order to demonstrate the financial viability of the scheme more generally, a cashflow is attached at **Appendix 5.2**, which includes the buy-backs/homeloss operation. While this appendix shows the cashflow related to these activities fully integrated with that of the PFI contract, it shows the financial viability of each separately. The affordability of the PFI contract itself is indicated by the year 1 Additional Revenue Contribution figure. This is locked at the value which would zero the final balance were the buy-back/homeloss costs and resources excluded.

A contract monitoring budget is available to cover all of the monitoring costs over the life of the PFI. The balance at year 31 therefore shows the viability of the buy-back/homeloss operation. The closing balance of £868K currently shown arises from a surplus derived from the private sale dwellings. If this were applied to subsidise the PFI contract, then the year 1 affordability gap would be reduced by £4K. Given the possibility of further RTB sales in the run-up to the PFI, it was considered more prudent to retain the surplus as a contingency on the buy-back/homeloss operation, and the Council has committed to the full affordability gap on the PFI contract.

## 5.7 Contract Monitoring

The Council has agreed provisional staffing levels for monitoring and liaison functions over the life of the PFI project – see **section 8.3**. This will be reviewed in the light of further research undertaken into the monitoring arrangements which have evolved in the pathfinder schemes. Some of these functions may be delegated to the existing TMO or a successor residents' organisation and this issue will be resolved prior to going to ITN.

Provision has been made from existing budgets for contract supervision to cover the anticipated costs both long term and during the more intensive period of monitoring/liaison at the start of the contract when works are underway. The details of this provisional budget are shown within the overall affordability spreadsheet (**Appendix 5.2**).

# Output Specification

## 6.1 Introduction

This section includes both the Property Management Standards (PMS) and the Service Performance Standards (SPS). The PMS and SPS are currently based on an assumption that there will be two sets of standards – one for the interim development period and one for the completed scheme. This will be worked up in more detail as the scheme progresses to ITN.

### ***Interim Standards***

The interim standards will relate to the period during the development where demolition and decanting is taking place. Property Management Standards within the temporary decant properties will be assumed to be different to those within the completed newbuild properties as the operator cannot be held liable for all defects within existing structures. Likewise, the SPS cannot be applied to the decant properties in the same way as they would be applied to the completed scheme. It has been assumed, for instance, that the processes of void management will not have the same turn-around dates as that for completed units. Monitoring will still take place at the same intervals, but additional leeway has been given in the Management Standards for issues that are not under the operator's direct control. Other elements included in the attached SPS will remain the same for both the interim and final scheme. It must be assumed that the response time to an emergency repair will be the same whether the tenants is in a decant situation or not and that, for example, the need for a property management system which includes regular office opening hours will be the same for both phases.

### ***The Park***

A section on Grounds/Park Maintenance has been included and will be added to and/or amended as the scheme is worked up. The SPS applicable to this area are based on the current Lambeth requirements for ground maintenance. Again, an interim standard is being developed to take into account new turfings, plantings, etc. Other parks/grounds issues that will be worked up as the scheme progresses.

### ***Development of the Output Specification:***

The above will be determined by future negotiations with interested parties including the residents and ultimately with the preferred bidder. A structured consultation exercise with existing residents has been put in place (see Section 11) and this will constitute an integral part of defining and refining the output specification further. This process will apply not only to the PMS, but the SPS, some of which will need further consultation before they can be finalised. As a result, the performance expectations on a number of them will change over the next few months.

It is anticipated that the development of new build housing for shared ownership and for outright sale will be governed by an ancillary development agreement. This

agreement will include something of an output specification defining the broad requirements of the Council in respect of density, massing and storey heights, and overall environmental performance for developments that are in line with the Council's planning policies. Any requirements in respect of the specification of the homes e.g. environmental performance, will be limited to high level targets to enable the private sector to best maximise the opportunity and to enable the Council to mitigate the cost of relocation as far as is possible whilst ensuring that the redevelopment of Myatts Field North is done in a manner that will engender genuine community cohesion and sustainability.

## **6.2 Delivering Good Design**

The Council have employed Levitt Bernstein as advisors for master-planning, urban design architectural design, and landscape architecture. Levitt Bernstein work with CABE and CABE Space. David Levitt acts as a CABE enabler and is an Assessor for the ODPM/RIBA Housing Design Awards.

Initial contact was made with CABE about CABE involvement and current resourcing did not at that time include a remit for PFI housing projects. Through its technical Consultants LBL will maintain a dialogue with CABE to ensure that CABE's work and advice to ensure 'Better Public Buildings' is carried through.

The Technical Consultants will prepare a robust package of design advice and parameters for inclusion in the ITN documentation pack and for inclusion in the matrix for assessment of bidders proposals. These parameters will be framed to reflect the ODPM goals for Sustainable Communities.

This advice will include an urban design framework within the UDP, and a design guidance framework for the new park, the new streets, and the new affordable housing. The purpose of this guidance is to establish a common information base to reduce bidder costs, and to establish design parameters that encourage innovation by bidders. The guidance will establish a quality threshold for housing layouts, external design, urban design energy and sustainability. This design quality threshold will provide a key element of the assessment matrix

### ***Design Champion***

Lambeth will retain the advice of Levitt Bernstein through the procurement programme to ensure that at each stage the master-planning and design proposals of each bid are assessed against national 'best' standards for design, for sustainability, and for innovation including MMC.

In addition, the Planning Department has engaged planning consultants, Tibbalds, with a remit to formulate Development Planning Guidelines which will establish parameters within which the Urban Design Framework can operate.

### ***Modern methods of Construction***

It is anticipated that bidders, as reflected through 'soft market testing' will be teams of RSL's and contractors with experience of the affordable housing sector. The ITN pack will refer to current Housing Corporation guidance on MMC.

## 6.3 Property Management Standards

**Proposed Structure of the PFI Output Specification** –Figure 1 shows the proposed documentation structure for the MFN Output Specification. This is closely based on the 4ps and ODPM *Model 10* format. However the complexity of MFN means that separate documents in the format of Model 10 will be required for the different stages of the project as well as for the different elements of the development: for example, dwelling refurbishment, new-build and community buildings. The existing Model 10 clauses – essentially written as a property refurbishment and management package— will be extended and modified to meet all the requirements of this proposal.

*Components of the OPDM Model 10 management standards:* The PMS model document contains three elements:

- **PMS certification requirements:** define the standards that buildings and infrastructure are to meet, the indicators that are to be used to measure the PFI contractor's compliance with these standards, and the assessment method(s) to be used and the penalties that are to be levied in the event of service failure. The significance of this stage is to determine whether the work performed by the contractor has completed the items, which will qualify for a step up in the unitary charge for a refurbished dwelling or commencement of payment of the unitary charge for a replacement dwelling.
- **PMS service level requirements:** define standards of maintenance for buildings and infrastructure, the indicators that are to be used to measure the PFI contractor's compliance with these standards, the assessment method(s) to be used and the penalties that are to be levied in the event of service failure.
- **PMS service performance standards:** define housing management service standards including property management standards for buildings and infrastructure, the indicators that are to be used to measure the PFI contractor's compliance with these standards, the assessment method(s) to be used and the penalties that are to be levied in the event of service failure.

*Property management standards:* A suite of interrelated property management standards will be needed to cover the MFN dwellings, depending upon the stage of the project. In simplified form there will be:

- a set of standards for the un-improved 'pre-works' dwellings; once redundant existing dwellings have been demolished and all retained existing dwellings have been refurbished, this availability standard will cease to apply;
- a set of standards for retained dwellings after they have been refurbished;
- a set of standards for new affordable dwellings to be retained by the Council ;
- a set of standards for the non-residential buildings on the site, including the proposed new community centre.
- a set of standards for the infrastructure, including un-adopted estate roads, roads subsequently to be adopted and communal service infrastructure such as the new CHP plant and distribution network.
- a set of standards for the public realm, including play areas and New Mostyn Gardens.

Because of the phased nature of the project, the scope and content of the last two sets of standards is also likely to vary over the course of the contract; for example, many existing estate roads will be removed and replaced with new ones in new

locations. In turn maintenance of some or all of the completed new roads will initially remain the responsibility of the PFI contractor; only when development works are complete will it be appropriate for Lambeth to adopt them at the agreed handover standard; alternatively, responsibility for road maintenance could remain with the PFI contractor. Lambeth will decide whether it intends to adopt the new roads and this decision will be incorporated in the ITN.

As an example, we have prepared a model format for the set of documents applicable to new rental dwellings. We have taken the PMS certification requirements for this dwelling type and have drafted a preliminary schedule of contents-- see **Appendix 6.1**

*Decant management:* Lambeth will undertake the re-purchase of leasehold properties that are to be demolished as part of the re-development. The PFI Contractor will manage the decanting of existing residents into the new dwellings as they are completed. Lambeth will be responsible for providing alternative council housing for rent for those who wish to move off the estate and will be legally responsible for obtaining possession when required. The PFI Contractor will be responsible for offering affordable housing to those leaseholders who wish to remain. The Contractor could also be made responsible for exercising on behalf of Lambeth the remedies it has available to it, if necessary by taking legal proceedings.

*Handover stage:* At handover the successful PFI contractor will receive MFN and Mostyn Gardens in their existing condition. Before handover takes place, it will be necessary for Lambeth and the contending PFI bidders to agree the state and status of all the dwellings, including minimum standards for short term decant dwellings. Similarly the state and status of all non-residential buildings, infrastructure and public realm will have to be established before the ITN; this will be the basis against which pre-development availability standards will be measured and upon which bidders will make their best and final offer.

*Development stage:* During the development stage the PFI contractor will re-develop the site on a phased release basis. There will be a specific PMS for the existing retained dwellings in order to ensure compliance with the Government's 'Decent Homes' standard. New properties will be constructed on vacant land; tenants will be re-housed in the new units and the vacated properties will then be demolished. The relevant property management standards for all inhabited properties, including dwellings scheduled for future demolition permanently retained existing dwellings and the new dwellings, will have to be safeguarded throughout the development stage. Finally, the amenity standards of the retained estate roads and the remaining parts of the Mostyn Gardens parkland will have to be maintained at a satisfactory level throughout the development process.

*Development and post-completion stage:* As refurbished properties, new leasehold and tenanted properties, and new non-residential buildings are released for occupation/use, the PFI property management will start to operate the higher property availability standards applicable to new and refurbished properties. In addition new infrastructure will come on-line; as noted above, some elements of this may become the maintenance responsibility of the PFI contractor (e.g. the proposed CHP plant) and other elements (e.g. estate roads and possibly New Mostyn Gardens) may be adopted by Lambeth, who would then become responsible for subsequent maintenance.

*Post-completion stage:* Once the development phase is complete, the PFI contractor will be responsible for day-to-day property maintenance and management. There will

also be a capital maintenance element within the PFI contract, the scope of which needs to be defined, possibly including pre-hand-back works to ensure that Lambeth inherit a manageable programme of capital renewal. For clarity Lambeth will specify the minimum remaining serviceable life for the components of the buildings at hand-back.

*Hand-back stage:* Hand-back standards need to be defined for both 'new' and refurbished dwellings, to the extent that these differ, including landlord responsibilities for leasehold dwellings. Landlord responsibilities will only affect those blocks where Lambeth is the freeholder or head-leaseholder. Hand-back standards also need to be defined for the non-residential buildings, infrastructure and public realm.

## 6.4 Service Performance Standards

Using the Procurement Pack model, Service Performance Standards have been designed for the following areas:

- Void Management
- Rent Collection and Arrears
- Tenancy Management
- Reactive and Cyclical Repairs
- Grounds/Park Maintenance
- Leasehold Management
- Non-tenanted Buildings
- Playgrounds.

These will be used as the basis on which to develop a more comprehensive SPS to present to the Operator.

Three samples are set out in **Appendix 6.2** – in relation to aspects of voids turnaround, open space maintenance and leasehold services.

# Deliverability

## 7.1 Background

In preparing the Outline Business Case, it was necessary for the Council to confirm that there is market interest in the project being proposed. The authority was also keen to have the benefit of private sector views on the detail of how the PFI was being constructed and to check that there was nothing which would deter potential bidders in the scope or otherwise of the project which was evolving.

## 7.2 Bidders Workshop

In July 04, the Council organised a workshop for potential bidders with the aim of outlining to the market the nature and size of the project being proposed and to give the private sector the opportunity to put questions, raise issues, and to begin to assess whether this was a project they would be interested in.

Given the relatively short notice and the difficult time of year, the response was very encouraging. Six contractors, four housing associations and two consultants attended the session. Several other firms, in giving their apologies, said they would have wished to be present and would want to be kept in touch with the project. Indeed a number of firms have made regular contact with officers over the subsequent period asking for an update on progress with the scheme.

The session took the form of a presentation by the Council covering the key elements of the proposal, viz.

- The mix of demolition/new build with the rehab of retained properties
- The inclusion of the construction of a new park and community facilities
- The inclusion of additional units for outright sale
- The financial framework of the scheme
- The opportunity for using the Housing PFI to lever in additional benefits from other partners' capital investment programmes, and how this would be handled through an Urban Design Framework so as to give simplicity and clarity to the boundaries and the brief within which the private sector would undertake the detailed masterplanning of the PFI elements of the regeneration.
- The factors which might contribute to a successful bid.

A question and answer session followed. The questions to the authority centred mainly around the priority which would be given to the scheme corporately and how well the implementation team would be resourced. It would be fair to say that participants arrived with a degree of scepticism about the Council's ability to deliver but that they came away substantially reassured in regards to member support and director-level engagement with ensuring successful delivery of the project.

The Council took the opportunity to discuss with potential bidders their attitude to different roles which the TMO might play in the PFI. The attitude of those who commented was very clear; that they were prepared to work alongside a TMO which

retained management functions, but that this would have significant implications for risk transfer, or price, or a combination of the two.

## 7.3 Individual Interviews

The open session for potential bidders had confirmed that the market was interested in principle in the Lambeth scheme, but bidders were inevitably reluctant to discuss their attitudes to the details of the scheme in the presence of their competitors. It was decided therefore to hold a number of individual meetings with potential bidders once the OBC was further developed. These took place on 20<sup>th</sup> and 21<sup>st</sup> January 05. Nine organisations were invited— three builders, four housing associations, a facilities management company, and one bank. Two of the builders and one housing association declined the invitation for internal reasons, but asked for their continuing interest in the scheme to be kept in mind. Those attending were invited to take along their consortium partners but in fact only one did so.

A series of questions were issued in advance covering the scope of the project, the programme and phasing, standards, risk issues, the units for sale, local office requirements, resident consultation, the procurement process and attitudes to the involvement of the TMO in various roles. These are attached at **Appendix 7.1**. One of those attending brought written responses to the meeting and two others provided these afterwards. The main findings are summarised below.

### ***Scope of the Project:***

All of the potential bidders were happy with the extension of Housing PFI to demolition and new-build. No one saw any problem about the combination of new build with refurbishment of the retained units, nor with the extension of the standard documentation to cover new-build. The need for different availability standards for new and refurb units was noted, and also for an interim standard for units to be demolished.

Those interviewed were comfortable with including a park within the PFI. They considered the construction and lifecycle works to be fairly routine for contractors, and while they recognised different risk issues arose with management responsibility for a facility with open public access, they were confident that the payment mechanism could be tailored to limit their responsibility to what they could reasonably be expected to control. In any case, leaving the management of the park with the Council gave rise to interface problems that were no less problematic and on balance, they felt that having the housing and the park under single management would be beneficial both to the PFI contractor and to the regeneration of the area. Several organisations recognised the possibility that they might need to bring in an additional partner with specific skills in managing public facilities.

The inclusion of community facilities caused no concern either; many had managed buildings occupied by community organisations or projects

### ***Phasing***

All those interviewed said that it was not possible to suggest at this stage how the project might best be phased.

## ***Anticipating Future Standards***

All were prepared to meet high standards in relation to sustainability, but looked to the Council to define these in the competitive stages of the procurement. At financial close, a view could be taken about what regulatory improvements were coming, but thereafter further improvements would have to be dealt with through the change mechanism.

Bidders were happy to deal with an output spec which had demanding targets in terms of CO2 emissions, but they were unwilling to undertake the expensive option appraisal and design work on this before preferred bidder stage. They therefore looked to the Council to provide a preferred “vision” or compliant design to allow all tenderers to compete on equal terms with little outlay in the early stages.

## ***Key Risks***

Generally those interviewed cited risks that the authority had already identified – getting the various consents (road closures, etc), planning, defects in the retained properties, ground conditions, interest rate changes, building cost inflation, property values, etc. Those that they stressed probably reflected scars from earlier schemes: they included:

- Design and masterplanning costs
- Price increases due to delays
- Engagement of residents and wider community
- Leaseholders
- Programme phasing and decant risks.

There was considerable discussion of the last item. All were keen to have a role in the decant process, since they needed to get properties emptied into completed phases in order to demolish further tranches. On the other hand, they recognised that they were unable to take over landlord functions. Clearly this was an area requiring tightly controlled co-operation between the parties. On balance, their preference was for the consortium to lead on decants, but with a detailed “protocol” which would spell out when they were able to call on the Council to exercise legal or other landlord action (perhaps rehousing offers), and tight deadlines within which that action had to be taken.

## ***Survey and other information***

Bidders made a strong case for all information to be warranted – it avoided lost time while contractors repeated surveys for themselves, and in the long-run it was more economic.

## ***Deriving maximum income from sale units***

There was no indication that any of the bidders had innovative arrangements to propose. The message was predictably that the more risk the PFI contractor had to bear on the sales income, the lower the return to the authority. The bank pointed out, however, that getting the maximum benefit from the sales units was in part about good cash-flow management.

## ***Resident Consultation***

All saw resident involvement as critical to success – even the bank. But they were wary of a number of bidders doing their own consultation. They thought the only way to avoid confusion was to do the consultation after the preferred bidder was chosen. One company came up with some possible ways of involving residents earlier –

- having a presentation day when residents told bidders of their vision for the area
- having a post-bid presentation to a select group of residents.

All wanted to see a long-term involvement of residents – through a residents’ forum for example – in monitoring the progress of the contract.

## ***Structure of the Procurement***

The main concern expressed by bidders was that their costs should be limited during early stages of the procurement, and that a preferred bidder should be chosen as early as possible. They wanted as little demand on their design time as possible during the competitive stages, being content to price a clearly defined and specified “preferred scheme” provided that they had the option to submit variant bids. Similarly they saw consultation over competing proposals as wasteful and confusing to residents; consultation and working up detailed design should await the preferred bidder stage.

Other issues they pointed up included:

- the importance of a clear specification
- a timetable which did not slip
- regular board level review of issues
- the need for the Council to champion the scheme to government
- the imperative to resource the project team properly
- the need to employ experienced advisors
- the advantage of thorough clarification at ITN to avoid BAFO.

## ***Role of the TMO***

One of the housing associations expressed the wish to bring the TMO into the SPV alongside them, and declared themselves prepared in principle to cover the risks - provided the TMO operated under tight performance criteria and the housing association had ultimate control. The bank indicated they would not oppose such an arrangement per se, but would assess the TMO’s financial status and capability, and would want step-in powers, as with any other subcontractor.

All the other organisations interviewed, however, expressed varying degrees of concern at the possibility of a role for the TMO on the delivery side. These ranged from comments about risk and cost implications to indications that they would feel less comfortable with the investment. Most felt that the most effective role for a tenants’ organisation lay in monitoring function and the enhanced liaison with residents that they could offer the consortium once the contract was in operation.

# Key Terms & Conditions and PM

## 8.1 Key Terms and Conditions and Contractual Heads of Terms

A full draft of the Project Agreement and Direct Agreement will be included in the Invitation to Negotiate, and bidders will be required either to confirm acceptance of their terms, or otherwise to provide a comprehensive mark-up of each document. The extent of any mark-up (and, in particular, the extent of any proposed derogation from the requirements of general and sector specific standardisation) will form part of the legal evaluation.

The Project Agreement will set out the risks which the Authority wishes to transfer to the Contractor and the risks it is prepared to retain and/or share, giving contractual effect to the risk matrix set out at **Appendix 9.2** of this OBC.

The Project Agreement will be based on the draft set out in the 4ps Housing Procurement Pack (“HPP”) and accordingly will generally be consistent with Version 3 of HM Treasury’s “Standardisation of PFI Contracts” (SOPC3). The Authority notes that the HPP draft Project Agreement has recently been formally endorsed by HM Treasury and that any derogation from SOPC3 set out in the HPP draft Project Agreement will be permitted on a sector specific basis.

The Authority only anticipates amending the HPP draft Project Agreement to the extent that it is necessary to do so for project-specific reasons, for example to take account of the eventually agreed phasing and decanting/rehousing proposals and the construction and sale of new homes.

The Direct Agreement, which deals with the relationship between the Authority and the Senior Lenders to the Contractor following a termination or threatened termination of the Project Agreement for Contractor Default, will be based upon the drafting included in SOPC3.

The Authority will reserve the right, in the Invitation to Negotiate, to amend the draft Project Agreement and Direct Agreement to accord with any further general, housing specific or local authority specific guidance issued by ODPM, HM Treasury or the 4ps.

The Authority will require the consents of the Secretary of State pursuant to sections 27 and 32 Housing Act 1985, section 25 Local Government Act 1988, section 123 of the Local Government Act 1972 and section 233 of the Town and Country Planning Act 1990 in order to conclude the expected transaction in its entirety and will make application for these consents at the appropriate time.

Subject to obtaining these and any other necessary consents, the Authority is satisfied that it has power to enter into the proposed transaction by virtue of sections 9(1) and (2), 10(1), 21 and 27 of the Housing Act 1985 and section 111 of the Local Government Act 1972. The Authority will issue certificates under the terms of the

Local Government (Contracts) Act 1997 to the Contractor in respect of the Project Agreement, and to the Contractor and its Senior Lenders in respect of the Direct Agreement.

### **Best Value**

In so far as they are appropriate to a PFI contract, the Council will endeavour to ensure that the principles of continuous assessment and improvement embodied in the Best Value regime will be addressed by the PFI contractor. The approach to achieving this will be as follows:

- where possible, the output specification will incorporate known Best Value targets
- bidders will be asked to indicate in their tenders how they intend to achieve ongoing service improvements
- contractors will be required to specifically acknowledge their obligation to assist the authority in achieving its Best Value obligations
- the project agreement will incorporate provision for review of services on a regular basis with a view to agreeing changes in targets to achieve continuous improvement in services.

## **8.2 Payment Mechanism**

A payment mechanism will be put in place, developed from the model in the Housing Procurement Pack but tailored to scheme-specific issues. This is tied in with the Property Management Standards and the Service Performance Standards and will continue to be defined up to ITN. All the relevant Performance Indicators will be considered. At this early stage, it is anticipated that the mechanism will be based on a percentage that could vary between the interim and final standards. A simple ratchet mechanism will probably be used— for example, resolutions of problems dealt with within the Target performance level would not accrue points. If they are dealt with within the minimum acceptable level they will be rated as 1 with, perhaps, an increase of 1.5 and 2.5 for subsequent defined periods. Defects falling below the minimum acceptable level and not dealt with within a period greater or equal to 3 x the minimum standard (in this example, 3 x 10 days) will accrue a ratchet of 5.0 e.g.

Target performance level	= 7 days (0)
Minimum acceptable level	= 10 days (1)
3 x 10 days	= 30 days (5)

Deductions could vary between interim/final for example, in void management. It may be that voids in some decant/refurbishment properties are due to circumstances beyond the operator's control and therefore the deduction rate for interim schemes could be set at a lower tariff. An initial non-monitored period may also be negotiated with the operator if this is deemed necessary after the details of the scheme are finalised.

Lambeth are keen to keep the qualitative element of the payment mechanism to a minimum to ensure that the contract is run as simply as possible. It is anticipated that any elements that do require a qualitative input will be done by quarterly or annual tenant satisfaction surveys.

## 8.3 Contract Monitoring

The Council is gathering evidence from the pathfinder projects on their initial expectations in relation to the monitoring and liaison functions, and the extent to which these proved accurate once the PFI contract was up and running.

The working assumption is that one and a half permanent posts will be required for the duration of the contract. Their functions will include the following:

- receiving monitoring information from the PFI contractor, organising periodic checks of its veracity, applying the payment mechanism, and authorising payments.
- discharging client obligations under the contract – the change mechanism, benchmark reviews, etc.
- organising and administering regular liaison and review meetings with the contractor, including ad hoc working groups addressing particular issues
- negotiating changes to the contract where this is mutually beneficial, e.g adapting to changing legislation
- negotiating liability where the contract shares risk for events between the parties
- assisting the contractor in securing effective consultation with individual residents where appropriate.

In addition, it is anticipated that the following staff will be required during the development period:

**Quantity Surveying/quality control staff:** to check that the capital works are proceeding in accordance with the contract and with statutory and other regulations. Specialists may be required in relation to the delivery of the park.

**Resident liaison staff:** to assist with effective communication between the contractor and residents and to ensure that liabilities are not incurred by the Council through resident-related events for which the authority carries some or all of the risk, e.g. access issues, tenant improvements, etc.

Once more certainty is achieved about the scale of this operation, discussions will be held with the TMO to agree what role they (or a successor organisation) may wish to play in relation to these tasks.

The Council has made initial budgetary provision during the current budget-setting round for contract management of this and other upcoming contracts. The level of that provision will be reviewed annually up to financial close to ensure that the client role can be resourced in line with the latest information from earlier PFI schemes across the country, and appropriate to the anticipated vehicle for delivering these functions.

# Risk Allocation & Accounting Treatment

## 9.1 Strategic Risks

The Council considers that the strategic risks in relation to housing need and demand are relatively insignificant. The long term housing shortage in the capital, combined with the continuing migration of the population into cities and towards the South in particular mean that there is little reason to think that over the life of these properties they will ever be other than in great demand.

Obsolescence is considered a relatively low-order risk in housing. The most likely aspect of current design to encounter significant change over its lifespan will be energy use. For that reason, the Council has engaged specialist consultants to investigate the extent to which this aspect of design can be future-proofed within the currently available resources.

## 9.2 Project Risks

A risk analysis was undertaken through “brainstorming” sessions involving all consultants to identify the project risks. These are scheduled in **Appendix 9.1**. Strategies were identified to eliminate or to mitigate these risks (so far as possible prior to financial close) and there will be regular reviews at all levels of governance of the project to update the identified risks and assess the effectiveness of mitigation strategies.

It is intended that as much survey work as possible will be carried out prior to issue of ITN, and that these investigations should be warranted. This will ensure that bidders are operating on the best possible information without the cost of undertaking their own individual investigations, and without incurring the associated delays. The Council may consider passing the costs of these investigations onto bidders, but this will depend on the view of the market on this. Ultimately the scheme will bear the burden of these costs whatever arrangements are put in place, and by taking control of them the Council will minimise these costs and ensure all bidders are working on the same assumptions. By securing warranties from consultants, the Council will still ensure that the risks associated with reliance on this information does not lie with the authority.

Those risks which can not be removed appear on the risk register which provisionally allocates risk between the parties in line with guidance from the Housing Procurement Pack. The risk matrix can be found at **Appendix 9.2**. This is a working document, and the allocation of risk will be regularly reviewed as the ITN is developed.

## ***New Build for Private Sale***

The new build for private sale is essential to making the Myatts Field North scheme work financially. It is the Council's early view that this element of the scheme form a development agreement, awarded parallel to the PFI contract, with a view to optimising revenue from properties built for outright sale and ensuring that there is no element of risk transfer to the main PFI contract funded via PFI credits.

The supplementary planning guidance is likely to influence the physical location of the properties built for outright sale, however, early work on the Urban Design Framework indicates that it would be possible to have a block for outright sale, private and affordable properties with the rented properties mixed in with refurbished properties, which would enable the Council to have a separate contract for the newbuild for sale, i.e. the non-PFI scheme.

## **9.3 Land Assembly**

With the exception of the land occupied by the schools and the health centre, the entire redevelopment area is in the ownership of the Council and is within the HRA (the public open space was originally intended for further new council housing but the new-build programme came to an end in the early eighties and the unused land has been maintained since then by the parks department. The Council has undertaken preliminary work on title issues and will shortly commence work to resolve anomalies and consolidate title where necessary.

## **9.4 Planning**

Myatts Field North is designated a Major Development Opportunity in the deposit draft UDP (see **Appendix 2.1** section 1.2 ), due for adoption in the course of 2006. To ensure the minimum planning risk in relation to the PFI proposals, the authority have engaged planning consultants to work up Development Planning Guidelines which will give clarity and certainty to what will constitute acceptable proposals from a preferred bidder— see **section 12.3** for further details. Because all land is within the HRA, there are no issues arising from building new homes on current open space, provided that open space is returned on another part of the site. Indeed the relocation of the public open space into a sustainable setting will be positively encouraged by planners.

## **9.5 Buy-Backs**

As described in section 2.9, the Council needs to repurchase leasehold properties in the blocks to be demolished. The bulk of this expenditure will be met from sales receipts of additional properties for sale, with the balance being funded from the capital receipt pot linked to the regeneration of the area. The principle risks associated with this operation are as follows:

### ***Reduction on sales values:***

To a degree, shifts in sales values are self-mitigating, i.e. any reduction in the value of units for sale will mean that re-purchase values will reduce also. To the extent that a problem remains, the Council intends to set a planning framework which will allow an increase in the number of dwellings for sale should this prove necessary to fund the buy-back programme. In addition, those properties built to replace the existing leasehold units are not expected to be taken up entirely by returning leaseholders, and the balance of these units could be diverted from low cost home ownership to outright sale if required.

### ***Increase in RTB properties to be repurchased:***

If additional right to buy purchases occur before the new Housing Act provisions allow the Council to halt further sales, then this will increase the cost of the buy-back programme. This is considered unlikely, since the reduction in the maximum discount tended to bring forward applications from all tenants who were able (or likely to become able) to exercise their RTB option. The risk is therefore largely restricted to the possibility of organised exploitation of the situation by disreputable financial companies. The current conditions of a largely static market, combined with reduced discount levels, do not present such companies with the opportunity for the rich pickings they have seen in the past. Should this activity occur, however, the capital receipt pot provides a contingency sum to deal with it, and should this prove insufficient, then the number of sale units will be increased as described above.

With respect to RTB sales during the life of the PFI contract, the Council is currently in discussion with 4Ps and colleagues in other local authorities to establish the best mechanism for reimbursing the PFI contractor.

## **9.6 Accounting Treatment**

The Council's financial advisers have prepared an initial view of the accounting treatment of the project and this is to be found in **Appendix 9.3**. This opinion has been reviewed by the Council's auditors and their report is to be found at **Appendix 9.4**.

# Project Management & Timetable

## 10.1 Introduction

The Council is acutely aware of the need to resource this project properly and to ensure that it is directed from the highest levels in the authority. Potential bidders mention the lack of dedicated resources and high level sign-up as one of their main concerns about PFI schemes. And the cost of delay to the procurement process is such that authorities potentially pay a very high price for under-resourcing. At the same time, Lambeth is determined to build up PFI skill and knowledge within the Council, rather than be entirely reliant on external advisors.

## 10.2 Governance

As soon as the Expression of Interest was approved, the Administration moved to establish effective sponsorship of the project at all levels of the Council. They also ensured that cross-party support was secured and maintained, giving long-term political certainty to the Council's ownership of the scheme. A structure chart describing the governance of the project is shown below.

### ***The Project Board***

Chaired by Executive Member for Housing. Overall direction of PFI.

Members are:

- Executive Member for Housing
- Representative of Corporate Finance
- Ward Councillor
- Reps from VARG (federation of local groups in Vassall), Cowley EMB (adj estate) and Friends of Myatts Field Park
- 5 representatives from Myatts Field North Estate residents— leaseholders/tenants demolition/retained dwellings
- The Directors of Environment, Comm Renewal and Housing
- Divisional Director of Housing— Strategy and Partnerships and Assistant Director— S&P
- Representative of 4ps.

In attendance— Housing Finance, Legal, PFI Project Team, Independent Residents' Advisor

### ***The Implementation Group***

Chaired by Executive Director of Housing Services. Day to day implementation of PFI plus manages Project Team.

Members are:

Directors of Housing, Environment and Community Renewal, Divisional Directors of Housing, Assistant directors of Housing and Environment, 4ps, Legal and Corporate Finance.

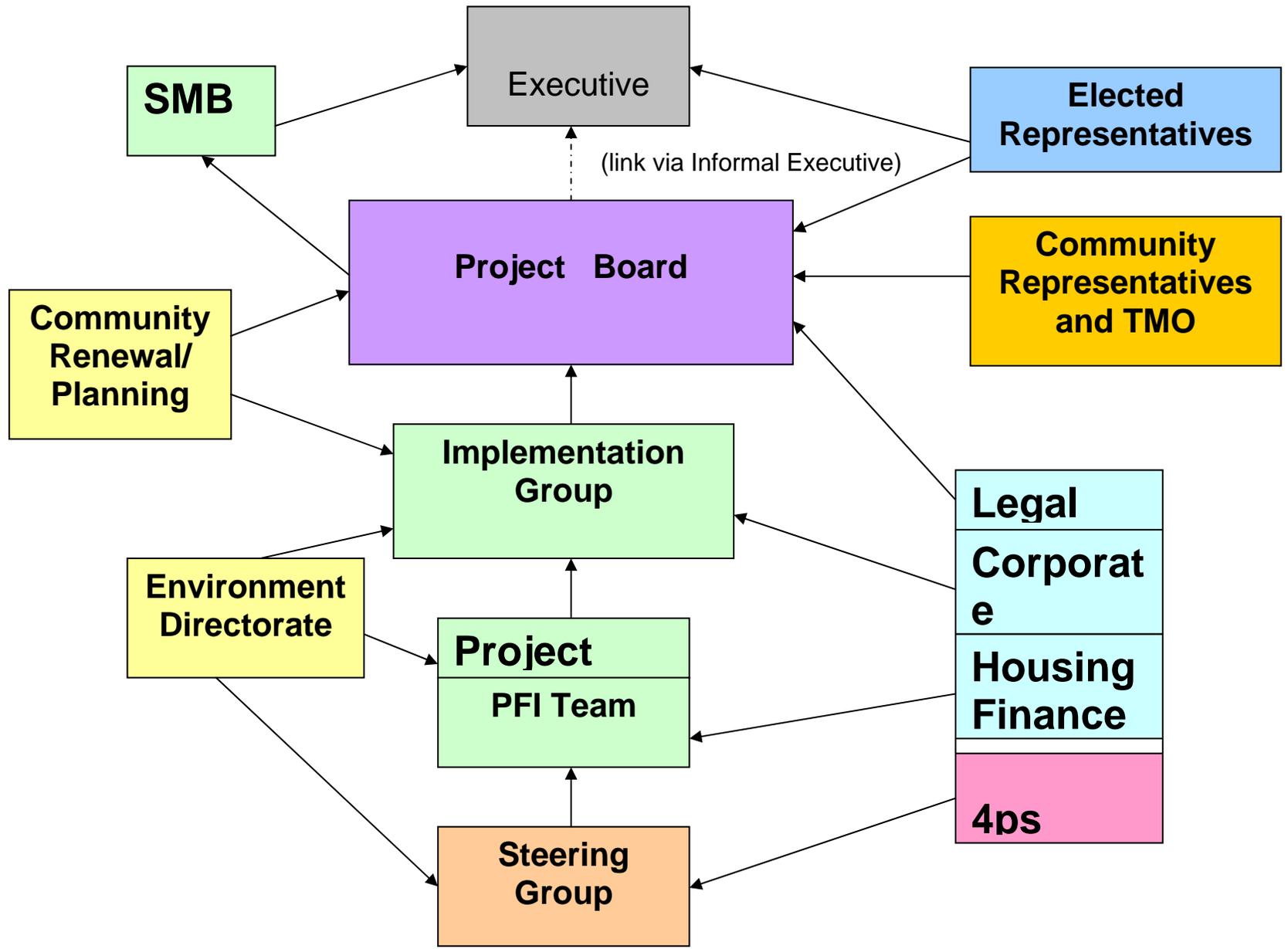
In attendance: Project Team members (as appropriate)

### ***The Steering Group***

Chaired by PFI Project Manager. Members are:

- Deloitte— financial consultants (doing the modelling for OBC and financial negotiations with PFI bidders)
- Frost Associates— cost consultants (do all the detailed number crunching)
- Levitt Bernstein— global masterplanners (PFI contractor does detailed masterplanning) plus specification of housing requirements)
- Eversheds – legal advisors
- Legal (in-house)
- Corporate Finance
- Housing Finance— providing the base cost info on management, maintenance and repairs
- Operations Division, Environment Dept in relation to the improvements to Mostyn Gardens
- Operations Division, Environment Department in relation to the improvements of local park, Myatts Fields, with the objective of joined-up approach to linking with improvements to Mostyn Gardens)
- Tibbalds, developing Supplementary Planning Guidelines using the Urban Design Framework developed by Levitt Bernstein
- 4ps (general advice and assistance)
- Project Team (as relevant to agenda).

# PFI Governance Structure



## ***Strategic Management Board***

SMB is chaired by the Chief Executive and is responsible for strategic decision-making and inter-departmental co-ordination within the Council. SMB considers reports on the progress of the scheme on a regular basis and ensures that the implications for all service areas, and for corporate plans and objectives, are being properly addressed.

## ***The Project Team***

The Project Team consists of a core of 5 officers working solely on Myatts PFI. In addition, other officers will be seconded to the team at particular stages of the project. For example, Environment has had a member of staff on the team for the past 6 months working on the issue of the park. The core team is as follows:

- PFI Project Manager
- Contracts Officer
- Contracts Officer (Finance) – being recruited February 2006, duties are currently being performed by agency staff
- Resident Participation Officer
- Administration Officer.

Finance officers from Housing and Environment, as well as from Corporate Finance, are part of the Steering Group and also attend Implementation Group as appropriate.

## ***The Project Manager***

The Council has recently appointed as Project Manager someone who is a qualified CIPFA accountant and MBA with PFI and project management experience. Commencing in January 2006 her role is to plan and manage the PFI procurement process, in particular the Council's external advisors. She will have the responsibility for drawing in resource and support, as required, from within the Council. Prior to joining the Council she worked both as an external advisor to local authorities procuring services through the PFI and also as an executive in consortia bidding for Islington Street Properties and Canning Town Housing PFI.

## ***Advisors***

The Council has appointed the following external advisors to support the procurement process:

- Deloitte's & Touche as Financial Advisors
- Frost Associates— cost consultants
- Faber Maunsell – environmental consultants
- Levitt Bernstein— global master-planners
- Eversheds – legal advisors
- Tibbalds, urban planners.

The Council intends to use this scheme to develop in-house PFI procurement capability and intends to mitigate some of the cost of procuring PFI by developing skills of in-house staff.

PPCR have also been appointed as Independent Residents' Advisor.

## 10.3 Allocation of Resources

The Government Office for London has agreed that the balance of the match funding budgeted by the authority for the Estate Action works to the estate can be used to resource the procurement process of the PFI and The Council Executive has agreed that the match funding should be used in this way. Any shortfall in funding of the process will be funded through existing departmental budgets.

## 10.4 Project Timetable

The project timetable is summarised below. It has been developed from the model included within the procurement pack. It is slightly more cautious in terms of the total time to financial close, and has been adjusted to meet the governance procedures in place, and the experience of our advisors on previous schemes.

<b>Project Milestone</b>	<b>Latest Date for Achievement</b>
Issue OJEU Contract Notice	31 March 2006
Submit Outline Planning Application <sup>Note 1</sup>	June 2006
PPQs Returned	June 2006
ISOPs Returned	July 2006
Development Planning Guidance issued <sup>Note 2</sup>	July 2006
Outline Planning Granted <sup>Note 3</sup>	August 2006
Bidders' Shortlist Announced	September 2006
Issue ITN	September 2006
Judicial Period for Outline Planning expires	November 2006
Bids Returned	December 2006
Invite BAFO	April 2007
BAFO Returned	May 2007
Select Preferred Bidder	July 2007
Submit detailed planning application	August 2007

Detailed Planning Permission Granted	December 2007
Judicial Review period of Planning Permission expires Statutory Orders definitively in place	March 2008
Final Business Case approved	March 2008
Financial Close	April 2008
Start on site	May 2008

Note 1 The outline planning submission is to be based on the DPG which will be pending approval from Full Council.

Note 2 Effectively Supplementary Planning Guidance, but technically does not have this status until the draft UDP is adopted.

Note 3 The target for securing planning permission is 13 weeks, this timetable assumes that permission will be secured within timescales.

# Commitment of Stakeholders & Sponsors

## 11.1 Commitment of the Authority

The Administration has remained engaged with the PFI proposal throughout the development of the OBC through the involvement of the Executive Member for Housing (EMH) as Project Board chair, through briefings to Executive members collectively and through departmental briefings, and through discussions between the EMH and the Leader over critical aspects of the scheme.

The Council's Executive considered a report at their meeting of 4<sup>th</sup> April 2005 recommending that the Council proceed with the scheme on the basis of the OBC submitted to Government, subject to the approval of ODPM and the Treasury, and that the Council commit to allocating the financial resources required over the period of the PFI contract to meet the Unitary Charge payments. This report was approved and the minutes of the meeting are attached at **Appendix 11.1**.

Through the central role on the Project Board of the opposition party councillor for Vassall Ward (in which Myatts is located), communications have been continuous between the Administration and the Opposition Party, and cross-party support has been established over all key issues as the proposals have developed. The PFI scheme has therefore been effectively election-proofed. A letter of support from the Opposition party is attached at **Appendix 11.2**.

Delivery of this project is a core objective within the Council's Improvement Plan and commands regular director-level involvement across key directorates. The Strategic Management Board has called for regular reports on the development of the proposals. Progress is monitored on a weekly basis by the Divisional Director of Housing (Strategy and Partnerships). The Council is completing the recruitment of a dedicated officer team and has allocated additional officer time from relevant sections as the need arises. A provisional budget of £1.6 million has been allocated to implementing the procurement process. This is the balance of the Estate Action match funding which Government Office for London has agreed can be directed to this purpose. The Council is currently making provision to increase this budget through a growth item in the current round of the star chamber process. The budget will be reviewed again next September and further financial provision made available as necessary.

## 11.2 Resident Support

Prior to submission of the Expression of Interest, a series of block meetings were held on the estate. The principal concerns of residents were around design and density issues and – given the history of the previous years - with the Council's ability to deliver the project. No residents voiced any objections to PFI, whilst a number explicitly supported the bid for PFI credits. The general consensus was that if PFI

was a mechanism that would allow the Council to deliver the improvements needed, then it should be pursued.

This accorded with the findings of the MORI census in summer 2003 which achieved an 80% response. MORI found that there was a very high level of support for the regeneration of the estate, and few concerns about the mechanism by which this was achieved other than a majority wish to stay with the Council as landlord and to avoid high density development.

Meetings were also held with community groups and projects in the surrounding area to encourage wider community input into the proposals. This was particularly important given the intention to have a new park at the heart of the redevelopment, and the opportunity to add value to capital projects already in the pipeline from other partners whose services were used in the ward more generally.

### ***Consultation during the development of the OBC***

Throughout February and early-March 2005, a series of meetings were held on the estate. These included individual block meetings for those properties which are likely to be demolished, a meeting for the residents of the improved properties which will be retained, and a meeting specifically for leaseholders.

These meetings reported back on the development of the PFI proposals and reinforced earlier sessions explaining how PFI works. The support from the residents generally for PFI as a delivery vehicle was difficult to gauge from these meetings, since we began to see a small but vociferous presence from "Defend Council Housing". They used the absence of a track record in Housing PFI and the negative publicity surrounding earlier PFIs in other sectors to undermine resident confidence.

A further round of "constituency" meetings was held in June 2005 with tenants whose homes would be demolished, tenants whose homes would be retained, "demolish" leaseholders, "retained" leaseholders/freeholders and short-life licensees. These demonstrated that while there was active opposition to PFI, there was also strong positive support, particularly from those who had attended "theme groups" - see below. For the first time, there was also a strong sense amongst those attending that the regeneration was definitely going to happen.

In addition to these general meetings, a series of workshops was held on the estate from April to July 2005 to help establish residents' priorities for inclusion in the ITN documentation. Those workshops were themed around:

- The urban development framework
- Homes and Streets: design standards for the housing and streetscape
- The new park
- The new community centre.

These groups took forward the draft outline spec considerably, and established in-depth contacts, albeit with a relatively small number of residents.

### ***The Residents' Vote***

In July 05, following a request from the Tenant Management Organisation (see below) a test of opinion was held on the estate. The question put to residents was:

### **Are you in favour of a PFI scheme improving and redeveloping Myatts Fields North Estate?**

The postal vote was administered by Electoral Reform Services, who organised a series of "call-backs" towards the end of the ballot period to encourage maximum turnout. The result of the vote was as follows:

	<b>Turnout</b>	<b>Yes Vote</b>	<b>No Vote</b>
<b>All tenants</b>	<b>61%</b>	<b>55%</b>	<b>45%</b>
Tenants retained	52%	58%	42%
Tenants demolished	66%	54%	46%
<b>All lease/freeholders</b>	<b>61%</b>	<b>64%</b>	<b>36%</b>
Leaseholders retained	40.5%	59%	41%
Leaseholders demolished	77%	67%	33%

Given that this test of opinion was organised at short notice (to avoid losing momentum on the PFI procurement timetable), the result represents a very positive endorsement. Besides providing a clear mandate to the Council and the TMO, the exercise had two further beneficial effects: firstly, resident engagement significantly increase, and secondly Defend Council Housing and the local MP (who had been actively supporting their campaign) appear to have accepted that the residents wish to pursue a PFI option.

## **11.3 The Tenants' Management Organisation**

This scheme will be the first Housing PFI to include housing currently managed by a tenant-controlled organisation. Myatts North TMO took over management and maintenance of the estate in April 04, after years of dedicated work and training by residents. The Council is keen that the PFI should not undermine the sense of achievement and control, which this represents. It is essential therefore that the PFI contract should be seen to deliver the guarantee of better housing services which motivated the move to a TMO in the first place. It is also critical to the optimum delivery of the PFI that the expertise built up within the residents themselves, through the creation and then management of the TMO, should be brought to bear on the development of the PFI contract.

A number of possible roles for the TMO were considered. The most obvious was to leave some or all of the TMO functions out of the contract. But there are significant problems associated with this. If the TMO retained its current maintenance functions then the link between the quality of the initial capital investment and the PFI contractor's liabilities for the state of the buildings over the period of the contract would be lost. But without responsibility for maintenance, the size of the TMO's business, and consequently its viability, would be seriously curtailed. And wherever the TMO's responsibilities ended and the contractor's began, there was going to be a difficult contractual interface which would almost certainly give rise to repeated conflict over liability for service delivery failures for which the contractor would be liable to financial penalty.

While one might have assumed that potential contractors might welcome this opportunity to muddy the liability waters; in fact the soft market testing has shown that contractors are as keen as the Council not to divert energy into this interface. Whether distaste for this split of responsibilities would actually deter potential bidders is difficult to gauge at this stage; their unease at the proposal is not. It would of course have been possible to twin-track this issue through the procurement process, inviting variant bids with and without management functions included. The concern with this approach was that the facilities management (FM) members of the consortia would be unlikely to invest the energy and creativity we hoped to elicit if they sensed that there was less than wholehearted commitment to including their role in the contract. It would also risk sending the damaging message to the market that the Council was uncertain what it wanted.

The second option was to “nominate” the TMO as FM contractor into all the consortia. Potential bidders have been very clear that this arrangement would come with significantly increased costs, or retained risk, or a combination of the two. It would also cut the TMO completely out of the client-side development of the output spec and other key elements of the contract. This would be a very high price to pay for a continued service delivery role for the TMO, which they might not, in the end, wish to continue for the full 30-year term of the contract.

The final option - for the TMO to market itself to one or more potential consortia - would be a very high risk strategy. It would exclude them entirely from the client side while giving no certainty that they would even be amongst the shortlisted bidders.

The Council concluded that the only viable approach therefore was for the TMO to cease providing services with the start of the PFI contract. This leaves them able to take a full role in the specification and tendering process, to ensure that the standards, which they aspired to provide for the residents, are enshrined in the contract documentation and enforceable for the next 30 years. It would also mean that the considerable skills which have been built up amongst TMO Board members would be available to the Council in developing the output specification and the contract documentation generally. And within the constraints of the legislation in force at the time, the TMO (or a successor resident organisation) can have a significant role in monitoring the performance of the contract, negotiating changes where these are necessary or mutually beneficial, and supporting the long-term liaison between residents and PFI contractor which should produce tangible benefits for both parties (see **section 8.3**).

The TMO, not unnaturally, has been reluctant to relinquish the role that residents have worked so hard to wrest from an authority whose performance until recently was characterised by significant weaknesses. It is unfortunate that the investment route which offers best value for money should put residents in this difficult dilemma. But the quality of the housing has always been their primary concern, and so they have concluded that their best hope of achieving their fundamental aims is by relinquishing their service delivery functions and being at the heart of the client-side decision-making on the contract terms. On 1<sup>st</sup> September 2005, the AGM of the TMO passed a resolution to this effect, and agreed to enter into a binding agreement that they would relinquish housing management and maintenance functions on the PFI taking these over.

The TMO recruited their staff directly on taking over responsibility for the estate in April 2004. It is anticipated that the majority of these staff will be TUPE'd over to the PFI contractor. The TMO, or a successor organisation, may continue to employ staff,

however, to fulfil any client side functions - such as monitoring and liaison - which may be agreed with the Council in the coming months.

The TMO will continue to represent residents' views until PFI-specific consultation structures can be "grown". They will continue to be represented on the Project Board in their own right, and they will have crucial role in the coming months in agreeing the performance standards which will be demanded by the Service Performance Standards in the tender documents.

## 11.4 Continuing Resident Consultation

While the outcome of the vote is considered to be very encouraging, the fact remains that a proportion of residents are currently suspicious of PFI and a further group have still to be fully engaged with the proposal. The Council has therefore put in place a Resident Consultation Strategy to increase awareness and support for the redevelopment. The elements of the strategy are as follows:

- Building resident involvement and representation from the bottom up
- Allowing residents to devise representative structures which suit them
- Recruiting key residents into capacity-building activities
- Raising skill levels within the community to improve economic prospects as well as enabling more proficient representation.

As a representative structure evolves, the outcomes from the theme groups which have been meeting in spring 2005 will be fed back to residents to enable a wider discussion and buy-in to the principles and standards which will inform the final output spec.

The full Resident Consultation Strategy is attached at **Appendix 11.3**

## 11.5 Other Stakeholders

### *The Urban Design Framework consultation*

Over the past nine months, a series of workshops have been held with representatives from the estate and from the wider area to develop land use proposals which will ensure the maximum benefit is derived from disparate capital investment programmes within the redevelopment area. The issues under consideration have also been aired at public meetings on the estate. This process has been used to gradually build knowledge and understanding within the community of how PFI works and also the consultation mechanisms by which residents can shape the proposals and influence the quality of services delivered by the contract.

The output from this process will be meshed with the development of statutory planning guidance (see **section 12.2**) to ensure that subsequent planning applications are firmly grounded in a widespread consensus developed within the local community.

## ***Key Partners***

There have been a series of meetings with stakeholder agencies operating in or affected by the proposals. The Council has been working very closely with the PCT and with the Diocese of Southwark (with both a primary and secondary school in the regeneration area) and the Metropolitan Police in developing the PFI proposals. Both the PCT and the Diocese have a particular interest in maximising the effectiveness of their own capital projects as well as a general interest in tackling disadvantage and social exclusion on Myatts Field North.

The Council will continue to hold liaison meetings with other stakeholders on a quarterly basis, or more frequently where required. These meetings provide a focus for inter-departmental communications within the Council as well as co-ordinating with our partners.



# Statutory Processes

## 12.1 Planning

### *Ensuring Planning Certainty*

Over the past two years, the Council has engaged local groups and other stakeholders in a process to develop consensus around the principles that will underpin a sustainable redevelopment of Myatts Field North while ensuring that the interests of surrounding residents are reflected in the proposals. This process has been led by master-planning consultants with assistance from cost consultants, traffic consultants and environmental impact consultants. The conclusion of this process will be the agreement of an Urban Design Framework early in 2006. This will set out the agreed land use within the redevelopment, as well as the broad approach to be taken to massing, streetscapes and movement within the area.

The Council's Planning Service will take up this community consensus and use it as the basis for developing formal planning guidance which will comply with ODPM guidance in PPS12 (Local Development Frameworks – 2004) for the preparation of Development Planning Guidelines. This planning guidance will establish the planning authority's requirements in terms of density, urban design, streetscape, public open space, and other uses as well as parking, traffic and pedestrian movement and the inter-relationship between the elements of the regenerated community in accordance with the policies in the Lambeth Unitary Development Plan, national and other relevant planning considerations. Planning consultants, Tibbalds, have already been engaged by the Planning Service to ensure that the planning guidance will be delivered to a secure timetable.

The planning guidance will inform the preparation of any planning application and will be used by the Council in assessing and determining development proposals. Because the planning guidance will have resulted from both initial consultation with residents and stakeholders during the course of preparation, and from formal consultation at the draft stage prior to final approval by the Council, planning applicants can be assured that compliant proposals would be likely to have the support of the Council.

The timescale for the preparation of the development planning guidance is for it to be in place before the scheme goes to ITN in September 2006.

### *Outline Planning Permission*

Once the development planning guidance is in place, the Council will submit an outline planning application. For the reasons outlined above, this should be approved and be in place well before the return of bids in December 2006.

As well as providing additional comfort to bidders, the outline consent will allow the Council to initiate compulsory purchase and road closure orders - see below.

## ***Detailed Planning Consent***

In a project of this nature it is not feasible to expect a contractor to take any planning risk after contract signature. Accordingly the proposed timetable has been established so as to allow sufficient time, after choice of a preferred bidder, for that bidder to submit an application for detailed planning permission for all elements of the project and for the period during which any judicial review application in relation to that planning permission may be made to have expired before contract signature.

## **12.2 Compulsory Purchase**

In order to have certainty over the delivery of the project, the Authority will need to acquire all estates and interests in the site which might conflict with it. The Council has undertaken an initial land referencing process, which has established that the only interests which must be acquired are the leaseholders resulting from right to buy sales. The Council is committed to purchasing these by mutual agreement and if possible enabling those leaseholders to take up offers to purchase new affordable homes within the development. In order not to take the risk of an unplanned delay in the project, however, the Council makes the assumption that it will not be possible to reach agreement with all the owners and so compulsory purchase orders will be put in place which can be deployed should it prove necessary. If there are any subsisting objections it will be necessary to hold a public local inquiry following which the Secretary of State will make a decision as to whether to confirm the order. The project timetable has been constructed so as to allow sufficient time for this to be completed before contract signature.

## **12.3 Public Rights of Way**

As part of the land referencing for the purpose of the compulsory purchase order, the full extent of highways and other public rights of way over the site will be identified. To the extent that these need to be stopped up or extinguished, the Authority would propose to make an application to the Secretary of State pursuant to section 247 of the Town and County Planning Act 1990. If there were any objectors, a public local inquiry would be required. This could be held at the same time as, and consolidated with, any inquiry needed for the compulsory purchase order. The authority has devised the project timetable so as to allow this to occur, so that any order in respect of public rights of way can be finally made before contract signature.

## **12.4 Public Support for Road Closures and CPOs**

Consultation about regeneration at MFN via partial demolition and redevelopment has been carried out over a number of years. A consistent request of residents is for a significant design change from the current layout to a more traditional pattern of streets. All schemes consulted on and supported by residents have included a new layout for the development area. This buy-in extends to all organised groups surrounding the redevelopment area who have been involved in the development of the UDF (see above) so the risk of objections is considered to be very low. A "vision" scheme based on the UDF principles established to date figured prominently in the material circulated prior to the residents' vote on the estate in July 05 and this produced no adverse comment. Any opposition to the PFI proposals was based on the funding route rather than the physical changes proposed.

Current proposals do not require the closure of public roads or the acquisition of associated land by CPO. All roads to be closed are estate roads within HRA.

The proposals do require the purchase of freehold and leasehold properties acquired through RTB and this may necessitate CPOs as noted above. Consultation with freeholders and leaseholders is progressing, however, and in the recent ballot, this group polled the highest level of support for the redevelopment.

## **12.5 Other Statutory Matters**

The Authority has identified the need to make applications for the consent of the Secretary of State under sections 27 and 32 Housing Act 1985, section 25 Local Government Act 1988, section 123 Local Government Act 1972 and section 233 Town and Country Planning Act 1990. The Authority does not (at this stage) anticipate any difficulty in obtaining these consents.