Overview & Scrutiny Committee

Impact of the credit crunch on physical regeneration in Lambeth – follow up report

All Ward(s)

Report authorised by: Executive Director, Housing Regeneration and Environment
Chris Lee

Executive summary

The purpose of this report is to set out the current impact of the credit crunch and recession on Clapham Park Homes, Building Schools for the Future, Myatts Field and projects within the Future Lambeth programme.

This follows the request from committee members at the February 2009 Overview and Scrutiny Committee.

The report identifies how the recession is impacting on these specific schemes and measures being taken to address the impact.

This report is only one part of the council’s response to the credit crunch:

- Lambeth Council in November 2008 was presented with the findings from its Credit Crunch Task Force.
- The Finance Scrutiny Sub-committee also considered the implications of the credit crunch on the Council’s financial position at its meeting in December 2008.
- Cabinet considered the Council Response to the Credit Crunch Task Force in February 2009, and a further implementation plan is due to go to Cabinet in April.

Summary of financial implications

There are no financial implications arising directly from this report.

Recommendations

(1) That the Overview and Scrutiny Committee notes the information contained within this report.
Consultation

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<td>Cabinet Member for Housing and Regeneration</td>
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Report history

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Background documents

- Regeneration Delivery Plan – Future Lambeth (Cabinet, November 2006)
- Future Clapham Award of Contract (Cabinet, December 2007)
- Future Clapham: Award of Contract - Call-ins of Cabinet decision (Overview and Scrutiny, January 2008)
- Impact of the credit crunch on physical regeneration in Lambeth (Overview and Scrutiny, February 2009)
- Future Brixton Masterplan Interim Report (Cabinet, February 2009)

Appendices

None
Impact of the credit crunch on specific regeneration schemes

1. Clapham Park Homes

1.1 Clapham Park Homes (CPH) has reviewed its works programme and timetable for delivering Decent Homes, in line with its Business Plan, and in recognition of the fall in property values and the availability of credit to potential purchasers. This ensures its continued viability, however the local market will have to be closely monitored and the Business Plan adjusted accordingly.

1.2 We await the revised 2009 Business Plan from CPH in order to take a view. However, recent discussions with CPH have indicated that there may be a need to review the tenure mix of two of the early schemes being developed in the Association; M3, Arkwright House replacement, which provides 75 local homes offering a mixture of sales, shared ownership and social housing and Clifton House which provides a replaced elderly scheme for the local authority and 50 local homes. Both of these schemes achieved detailed planning approval in December 2008.

1.3 CPH are reviewing the 'private for sale element' in these schemes, offering an alternative of shared-ownership, social housing and/or intermediate rent products. This will further de risk these schemes, as well as enabling residents to rent at a level below market rent, thus giving the opportunity to purchase at some point in the future at a discounted rate. This also enables a greater buy-in into the community from those residents before making the decision to buy when market conditions change.

1.4 The detail around this type of scheme as not yet been presented to the Council and there is potentially some work required to evidence the need for this type of product. Although initial discussions that CPH have had with the Homes and Communities Agency (HCA) have been very positive.

1.5 Indeed, feedback from the HCA is that they view CPH as one of the most significant schemes that they are supporting across London at this moment and have indicated that they will take a strong partnership role in ensuring that the scheme will be developed.

1.6 Under the Transfer Agreement the Council has the right to demand information relating to the performance of the Business Plan in year 4 and request that changes be made. Until this point, it is down to CPH to share with the Council any changes they are planning.

1.7 A review meeting with CPH has been arranged for March in order to get a formal update on the Business Plan and facilitate a round table discussion, although lines of communication are generally very good, with CPH approaching the Council in advance of any critical decision making.
2. **Building Schools for the Future**

2.1 The credit crunch is affecting the Building Schools for the Future (BSF) and Primary School Capital programmes in a number of different ways, and would appear to have both positive and negative implications.

2.2 **Construction and site acquisition**

2.2.1 The reduction in construction work that has arisen makes the market more competitive, so we should get greater interest in our projects and more competitive prices although there is a greater risk of our contractors/suppliers having financial difficulties. There may arise opportunities to acquire new sites required for additional school provision at a much lower cost than recently, subject to the council finding funds in these difficult times.

2.3 **Pressure on Services**

2.3.1 Lambeth has had for many years a shortfall of both primary and secondary school places. We have seen this year and last year, parents who, traditionally, would have chosen the independent sector, making applications for local Lambeth Schools. This is putting additional pressure on school places particularly at reception class, where this year we have seen an increase in number of applications considerably over and above the level that we had forecasted.

2.4 **Funding**

2.4.1 In terms of funding for BSF and primary schools, funding for BSF phase 2 has not yet been agreed, but we expect this to be confirmed soon at the approval of our Outline Business Case. However, there is a shortfall in funding for primary school expansion. Meetings with the Department for Children, Schools and Families (DCSF) have suggested anecdotally that funding for later years may not be consistent with previous statements. We understand that the current banking situation is impacting on, and has implications for, confirmation from the treasury of the next Comprehensive Spending Review (CSR). This has a direct effect on our planning of the vital primary school expansion projects, as they will run into years for which funding levels are currently unconfirmed. Funding for Private Finance Initiative (PFI) projects has also become more complicated in the current climate. We need funding for extending the Lilian Baylis Technology School, which is the only BSF PFI project, so there is a significant risk of delay to this scheme. We are however better off than most BSF schemes, which have many more PFI schemes.

3. **Myatts Field**

3.1 The Myatts Filed North PFI Project, project has been affected by the economic circumstances in three ways.

3.2 Firstly, in terms of the sales value of properties, whereby we have seen the overall sales values drop by between 20% and 30%. This impacts on the affordability of the project as the surplus created by the sale of private and
intermediate homes is used to fund the CPO, building of new additional homes and the improved infrastructure and landscaping.

3.3 Secondly, we have seen an increase in the cost of borrowing not in terms of interest rate as these have more or less returned to 2008 rates but in the cost of arrangement fees charged by the Banks to the bidders. This has impacted on the bidders cost base and leads to the potential for bidders to propose an unaffordable bid. The scheme will be funded by a ‘Club’ of three banks.

3.4 The third area is the period of time Banks are prepared to hold the terms of funding, usually the period is twelve months, thus allowing projects to go through the Planning Process and reach Financial Close, in the knowledge that rates where agreed. The current proposal of the four-week period is a high risk for PFI projects, as the Banks could use this position to either increase the cost of borrowing, withdraw funding completely or cause delays due to a delayed funding schedule from them.

3.5 Myatts Filed North PFI has attracted interest from a range of nine banks including Barclays, Dexia and NordLB, all of which are major players in the PFI market place. Currently the forecast is for an affordable project, an additional 150 social homes and to recover the procurement and regeneration costs of the project.

4. Future Lambeth

4.1 Across the Future Lambeth programme, the council is re-evaluating our masterplans against the current economic downturn. We are also looking at implementing a number of short-term practical improvements to town centres during the downturn. These improvements will complement the work of the masterplan. This report highlights a number of key projects within the Future Lambeth programme.

4.2 Future Brixton

4.2.1 Cabinet in February 2009 considered an interim report on the Brixton Masterplan. The report was interim as further work is required including around the financial appraisal and feasibility work as part of the masterplan.

4.2.2 The recession and impact on the property market has required a review of all the proposals within the masterplan to ensure that the community benefits the current draft proposes, along with key principles of sustainable development, can be maintained.

4.2.3 In general, masterplans are regeneration strategies that have a long-term focus and so fluctuations in market conditions will not have a significant impact. Masterplans also recommend projects in the short and medium term that will respond to the credit crunch as quick wins to support commercial town centres, and help mitigate some of the impacts of the recession.

4.3 Future Clapham

4.3.1 A statement from the developer was included in the February report to the Overview and Scrutiny committee outlining the challenges of the current market.
Since then, plans have been submitted to Lambeth Council for a major regeneration scheme in the heart of Clapham. The Council's development partner, Cathedral Group, has just submitted proposals to redevelop Mary Seacole House on Clapham High Street to provide a new community library, healthcare centre and 136 homes.

4.3.2 Cathedral's Clapham One development also includes redeveloping the existing Clapham Leisure Centre to provide 21st century public facilities. The leisure centre will include a new 25m swimming pool, 100-station gym, a four-court sports hall and an indoor climbing wall. The library will include a performance space, café and computer terminals.

4.3.3 The public facilities as part of this development have not changed due to the economic downturn, although there has been an increase in the height and massing and a reduction in affordable housing.

4.3.4 As part of the ongoing risk management of this programme, officers are also exploring potential mitigations to any further impacts of the recession.

4.4 Norwood and Streatham Masterplans

4.4.1 Similar to the Brixton Masterplan, further analysis is being undertaken to ensure that the community benefits can be realised following the impact on the property market. The masterplans are a key part of the council’s work in preparing for the upturn to ensure that Lambeth is in the best position possible to make the most of future investment opportunities.

4.4.2 The final masterplans are due to be considered at Cabinet in spring this year.

4.5 Streatham Hub

4.5.1 Tesco was asked to comment upon the impact of the recession for these reports, but have not provided a response in time for publication of this report.

4.5.2 The Council has not been advised of any impact of the recession on the Streatham Hub scheme.

4.6 Future Kennington

4.6.1 The current proposals for the Old Lilian Baylis school involve an asset transfer of the site to the community with a capital receipt. The capital receipt is reliant on valuations that will be affected by the recession.

5. Comments from Executive Director of Finance and Resources

5.1 The Authority has agreed to fund the Myatts Field PFI Project through a contribution to the Unitary Charge, UC (Payment to the Contractor) of £558,000 per annum at 2008/09 prices. The balance of the UC is made up of £114.6 million of PFI Credits from Communities and Local Government.

5.2 Phase 2 of the Lambeth BSF programme is being funded as part of wave 5 of the national BSF programme. The initial Funding Allocation Model (FAM) provided by
Partnership for Schools (PfS) shows that circa £202m will be available for the programme. The Council funds the advisory elements of the programme and this is covered in the base BSF revenue budget. There are some financial implications for schools in relation to the on-going and long-term maintenance of the improved assets and discussions continue with the schools on these matters.

5.3 Across the three-year period from 2007/08 to 2009/10, the Council has allocated £10.840M of capital funding to support the delivery of the Physical Regeneration programme. This investment to date has enabled the planned inward investment and development of multi-million pound schemes including Future Clapham and “Streatham Hub”.

6. **Comments from Director of Legal and Democratic Services**

6.1 The Council has a duty to maintain a balanced budget throughout the year and should plan for unusual events and circumstances.

6.2 The Council has a number of statutory duties and powers in relation to housing legislation and legislation in respect to education place duties, including the provision of sufficient schools for sufficient for the needs of its area and powers to the Council’s education functions

6.3 Section 2 of the Local Government Act 2000 provides that the Council has the power to do anything, which it considers likely to achieve one or more of the following objects

- The promotion or improvement of the economic wellbeing of the Council's area
- The promotion or improvement of the social wellbeing of the Council's area
- The promotion or improvement of the environmental wellbeing of the Council's area

6.4 Under this power the Council can:

- Incur Expenditure
- Give Financial assistance to any Person
- Enter into any arrangement or agreement with any person
- Co-operate with or facilitate or co-ordinate the activities of any person
- Exercise on behalf of any person any functions of that person, and
- Provide staff goods, services or accommodation to any person.

7. **Results of consultation**

7.1 Not applicable.

8. **Organisational implications**

8.1 **Risk management:**
The impact of the credit crunch has been identified as a risk where appropriate within existing programmes as part of the council’s risk management framework.
8.2 **Equalities impact assessment:**
Individual regeneration schemes have undertaken an equalities impact assessment. The impact of the credit crunch however has the potential to delay the benefits anticipated within these programmes.

8.3 **Community safety implications:**
There are no implications.

8.4 **Environmental implications:**
There are no implications.

8.5 **Staffing and accommodation implications:**
There are no implications.

8.6 **Any other implications:**
The credit crunch will continue to have an impact upon the finances of local authorities and the Audit Commission has reported that many local authorities are well positioned to ride out the immediate effects of the credit crunch.

The Improvement and Development Agency (IDeA) in collaboration with the Local Government Association has also produced a series of case studies from local authorities to highlight how local authorities to date are addressing the impact of the immediate downturn as well.

In addition since the last report in February, Communities and Local Government has published a report *The Credit Crunch and Regeneration: Impact and Implications*. This report suggests London may fare better than other parts of the country and singles out developments near transport hubs or in well-established desirable residential areas as less likely to be affected in this recession.