Introduction

This note provides a summary of the financial assessment of the regeneration proposals for the South Lambeth estate. This is produced as part of the Council’s commitment to be transparent about the process of regeneration and explain decision-making to residents.

For any project to proceed, it must be both financially viable and deliverable. To determine whether the regeneration of the South Lambeth Estate is financially viable the Council employed Airey Miller Partnership. As can be seen in their Viability Report for the project, a variety of financial scenarios have been considered for each design option in order to test that design option and identify the number of new homes could potentially be built for council rent.

Overview:

• For any project to proceed, it must be both financially viable and deliverable.

• To determine whether the regeneration of the South Lambeth Estate is financially viable, the Council commissioned a viability assessment of the design options that have been produced as part of the feasibility work.

• Viability is measured by working out the total ‘development value’ for a project minus the total cost of developing the project, for example the construction costs and the cost of borrowing money to build the project.

• This creates for a project what is called Net Present Value, of NPV for short.

• Both scenarios, which were assessed, were concluded to be financially viable.

• More detailed information can be found in the Viability Report by Airey Miller.

“...part of the council’s commitment to be transparent about the process of regeneration”
How is viability measured?
Viability is measured by working out the total ‘development value’ for a project (for example, in a private sector development adding up the sales values of all the new homes) minus the total cost of developing the project, for example the construction costs and the cost of borrowing money to build the project.

When working out the ‘development cost’ normally there would be two other factors to consider, profit margin (normally 20% of the total development cost) and the value of the land. When the Council is building on its own land this can be ignored. In addition in the case of the profit margin, the Council is committed to use any potential surplus to increase the proportion of homes for council rent.

In the case of estate regeneration, calculating the total development value is worked out by considering the income generated through rents over a long time period.

With this information you are able to work out whether a scheme is viable by creating what is called ‘net present value’ or NPV for short. This represents the total cumulative income minus the total cumulative cost over the 60-year period. When working this out income and cost are discounted by inflation.

For estate regeneration projects the key factors that determine whether a project is going to be financially viable are:

- The number of additional homes that can be built;
- The proportion of new homes that are to be let at council rent levels;
- Whether any of the net additional homes are sold or used for market rent; and
- The interest rate at which the Council is able to borrow for the construction work.
What restrictions are there on the financial options?
In addition to viability and deliverability, the Council has applied additional minimum objectives that must be achieved for a design option to be considered possible.

These are:

- To re-provide homes for all those wishing to remain on an estate.
- For existing tenants, the new homes to be let at council rent levels.
- To ensure that the net gain new homes meet Council policy of:
  - A minimum of 40% affordable homes.
  - 1 and 2 bedroom properties have a maximum rent set at local housing allowance levels (but preferably at council rent levels).
  - Family homes (3 bedrooms and larger) be let at council rent levels.

The design options

Airey Miller reviewed the two design options that the Council is currently considering:

The “Avenue”:

This would see Wimborne House retained and improved with the other homes being demolished and replaced by a new landscaped Avenue park. 327 new homes would be built with a gain of over 220 additional homes.

The “Square”:

This would see all homes demolished and a new landscaped square created providing 500 new homes built with a gain of some 303 additional homes.
Are these design scenarios financially viable?

Based on these design options, Airey Miller concluded both are financially viable as the NPV number was above zero inside the 60 year time limit. In addition each delivered the key objectives of delivering within the principle policy requirements of the Council. Further information on this can be found on the full Airey Miller report.

Avenue – with Wimborne House retained – base scenario:

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<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Number of homes</td>
<td>327</td>
</tr>
<tr>
<td>Number of additional homes</td>
<td>226</td>
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<tr>
<td>Gross development value over 60 years</td>
<td>£577m</td>
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<tr>
<td>Affordable housing on the whole estate (all to be let at council rent levels)</td>
<td>59%</td>
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<tr>
<td>Net present value (NPV)</td>
<td>£11,485,245</td>
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<tr>
<td>Breakeven achieved in</td>
<td>March 2071</td>
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Square – without Wimborne House – base scenario

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<tbody>
<tr>
<td>Number of homes</td>
<td>515</td>
</tr>
<tr>
<td>Number of additional homes</td>
<td>310</td>
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<tr>
<td>Gross development value over 60 years</td>
<td>£820</td>
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<tr>
<td>Affordable housing on the whole estate (all to be let at council rent levels)</td>
<td>63%</td>
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<tr>
<td>Net present value (NPV)</td>
<td>£500,950</td>
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<tr>
<td>Breakeven achieved in</td>
<td>December 2075</td>
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Key points:

• For any project to proceed, it must be both financially viable and deliverable.
• Viability is measured by working out the total ‘development value’ for a project minus the total cost of developing the project, for example the construction costs and the cost of borrowing money to build the project.
• This creates for a project what is called Net Present Value, of NPV for short.
• The “Avenue” scenario would see Wimborne House retained and improved with the other homes being demolished and replaced by a new landscaped Avenue park. 327 new homes would be built with a gain of over 220 additional homes.
• The “Square” scenario would see all homes demolished and a new landscaped square created providing 500 new homes built with a gain of some 303 additional homes.
• Based on these design options, Airey Miller concluded both are financially viable as the NPV number was above zero inside the 60 year time limit.

For additional information on this and other Estate Regeneration projects please visit estateregeneration.lambeth.ogv.uk