



DRAFT VIABILITY REVIEW

For the Project

At

CRESSINGHAM GARDENS – PEOPLE'S PLAN
REFURBISHMENT

Prepared On Behalf Of

LONDON BOROUGH OF LAMBETH

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**VIABILITY REVIEW FOR THE PEOPLE'S PLAN
CRESSINGHAM GARDENS ESTATE**



Version Control

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1. INTRODUCTION

The residents of Cressingham Gardens Estate have published the People's Plan. A proposal developed by the residents that proposes alternative approaches for refurbishing and developing new homes on the estate.

The following summarises the outputs from a high-level review of the refurbishment approach described, adopting key principles that are identifiable from the published plan.

1.1 Delivery from the proposed options

A refurbishment option with a energy/sustainability enhancement has been proposed. This can be summarised as:

- ***Option People's Plan***

This scenario proposes:

- Retention of the majority of the estate and refurbishment costs to be borne by the Council through the HRA.
- Development of a small number new homes

Details of the People's Plan

- Retain 205 tenants and 82 leaseholders

1.2 Delivery Aspirations

In assessing the People's Plan, the key assumptions and principles stated have been interpreted and incorporated into this assessment of viability. The model is consistent with the approach that has been applied in the review of the Council options and reported separately.

2. FINANCIAL VIABILITY ANALYSIS

The purpose of this financial viability analysis is to establish whether the options proposed to bring about estate refurbishment at Cressingham Gardens are viable and deliverable, providing the Council with an acceptable risk profile and a positive net present value ("NPV"¹).

To seek to maintain consistency with the Council options, the following common data sets were applicable:

- Finance Costs (annual rate)
 - HRA Loans at 5.57% pa (fixed)

- Assumed rents for retained dwellings
 - Retained Council Rent (£pw) Beds
 - 1 £94.62
 - 2 £108.12
 - 3 £124.43
 - 4 £143.69
 - 5 £157.34

- A 4% rent reduction to accord with the July 2015 Budget has been included in the first 5 years.

- Percentage of gross rent assumed for capitalisation purposes:

	Beds	1	2	3	4	
Affordable		33.12%	33.12%	33.12%	33.12%	Gross:Net Rent

- Leaseholder / Freeholder contributions to work:
 - Assumed that cost of refurbishment work is recovered from final work package in year 10 over the preceding 5 years.
 - Assumed that 80% of costs is recovered.

¹ NPV is a measure of how profitable a future cashflow is by comparing the value of a pound today to the value of that pound at a future point, taking inflation into account. If the NPV of a prospective project is positive, the project stands to provide an increased return on investment and would be considered acceptable. However, if NPV is negative, the project probably should be rejected because the cost of implementing will not be recovered in the future.

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3. People's Plan Option

A refurbishment option has been considered for the People's Plan proposal. This option reflects the Residents objectives and aspirations detailed earlier in their initial proposal and determines the extent to which these ambitions can be achieved.

These options deliver the following outcomes:

Refurbishment option

No. of dwellings tenanted dwellings retained	205
No. of leaseholder and freeholders retained	82
Cost of phase 1 refurbishment work (Inc. inflation)	£6.72m
Cost of phase 2 refurbishment work (Inc. inflation)	£8.18m
Grant Levels	£0m
Total revenue value (30yr)	£19.4m
Leaseholder s20 Payments	£3.4m
Peak capital shortfall requirement	-£12.4m
Pre Finance NPV	-£1.3m
Finance Cost	£11.46m
Breakeven achieved in	N/A

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Notes and Exclusions

- Numerous input data remains to be refined by the client and other advisors, the current model output is therefore not representative of the final scheme position.
- Indicated finance costs will not be accurate where the scheme does not reach a positive position.
- The finance structure is indicative and will need to be agreed with the eventual funder.
- This model has been prepared at an early stage in the project development based on limited information; the results of the model may therefore change in line with scheme / financial development. A further iteration of the model will be undertaken in due course.
- The gross and net rent cashflow is intended to be indicative only. A full business plan including major repair and replacement should be produced to inform cashflow.
- Airey Miller accepts no liability for the accuracy of input data other than that provided by Airey Miller Partnership. In particular, no liability is accepted in respect of values or income or operational/management costs. At present, the model uses affordable values as advised by the Council and those set out in the Local Housing Allowance for Inner South East London, June 2015. The Open Market Sales and Rental Values reported to the Council are provided by Lambert Smith Hampton and Hamptons International. These will need to be checked for a more location specific value weightings going forward.
- Airey Miller Partnership accept no liability for user changes to the model, any proposed changes should be referred to Airey Miller Partnership for checking.
- Airey Miller Partnership has produced its own Order of Costs to inform the cost assumptions for some proposed redevelopment options. It is intended that these OoC's provide a consistent and up to date base date. The detail is based on the previous design work and it is assumed that the design will work around the existing infrastructure layout. If there is a need to re-route services etc. then this will incur additional cost.
- All figures reported are illustrative only. Cost and values will fluctuate during the development period and it is recommended that the financial position is constantly monitored to ensure financial performance is maintained.
- There may be minor discrepancies between the figures presented owing to rounding in the calculations within the financial model.
- Funding for any refurbishment through the HRA is not considered as part of the financial viability testing.
- The position does not reflect any proposed or emerging changes to the draft Housing Bill currently being progressed by Government.