

Appendix F

Cressingham Gardens – Financial Summary

Redevelopment

Overview:

- For a refurbishment option to proceed the Council must find funds from the Housing Revenue Account (HRA) to pay for them. For a redevelopment project to proceed, it must be both financially viable and deliverable. As such the financial issues underpinning refurbishment and redevelopment are different.
- Refurbishment is inherently costly to the Council as it does not generate any additional income.
- In contrast, redevelopment enables the building of additional homes, which can pay for the cost of both replacement and new homes along with cross-subsidising provision of new homes for council rent.
- To determine the financial viability of the 5 options for Cressingham Gardens the Council commissioned viability assessments of the options that have been produced.
- Viability is measured by working out the total 'development value' for a project (the aggregate income from property sales and rents) minus the total cost of developing the project (the construction costs and the cost of borrowing money to build the project).
- This creates for a project what is called Net Present Value, or NPV for short.

Introduction

This note is a summary of the financial assessment of the different options for the Cressingham Gardens estate. It has been produced as part of the Council's commitment to be transparent about the process of regeneration and explaining the decision-making to residents.

For any project to proceed, it must be both financially viable and deliverable. To find out whether the options for Cressingham Gardens Estate are financially viable the Council employed Airey Miller Partnership. They have run a variety of financial scenarios for each of the 5 options for the estate in order to test each option and identify the number of new homes that could potentially be built for council rent.

These appraisals are based on the design work done so far. If redevelopment of the estate takes place, then the appraisal work will be repeated as more detailed design work is done.

The financing of refurbishment and redevelopment has to be considered entirely separately. Homes that are to be refurbished remain within the Housing Revenue Account (HRA) and therefore have to be funded through the HRA. Refurbishment is therefore simply reliant on whether resource within the HRA could (funding availability) or should (value for money) be allocated to Cressingham Gardens. As refurbishment does not generate any additional income for the Council it is therefore simply a question of allocating funding.

*“...part of the council's
commitment to be
transparent about the
process of
regeneration”*



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As the Council had committed to provide viability appraisals of all options, including refurbishment, then appraisals were run for both the refurbishment and redevelopment options. However the refurbishment appraisals were purely theoretical as in practice, refurbishment relies on the availability and allocation of funding from within the HRA.

Homes that are to be redeveloped can be paid for by funds outside the HRA and instead rely on whether redevelopment would make a viable commercial proposition. Redevelopment options generate additional income and therefore a business case can be developed to pay for the construction work.

How is viability of redevelopment 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' in the private sector this would also include a 20% profit margin and the cost of the land. When the Council is building on its own land, this can be ignored and the Council is committed to use any potential surplus to increase the number 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 a 60-year period. Income and cost are discounted by inflation for future years.

“Council is committed to use any potential surplus to increase the proportion of homes for council rent”

Cumulative
income
over 60
years

-

Cumulative
cost over
60 years

=

Net
present
value

For council-led 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 at council rent levels;
- Whether any of the additional homes are sold or rented out at market rent levels; and
- The interest rate at which the Council is able to borrow for the construction work.



Lambeth

Appendix F

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Redevelopment

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 an option to proceed. 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; and
- 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 options

Airey Miller reviewed the five options that the Council has been considering. These were:

- Option 1: Complete refurbishment of the estate and with no additional homes.
- Option 2: Refurbishment of almost all the homes, the demolition and replacement of homes at Crosby Walk and some infill new homes around the estate.
- Option 3: Refurbishment of almost all the homes, the demolition and replacement of homes at Crosby Walk and Papworth Way and some infill new homes around the estate.
- Option 4: The partial regeneration of the estate. This involves demolition of the northern third of the Estate (naming Crosby Walk, Crosby Way, Longford Walk, Papworth Way, Scarlette Manor and Chandler's Way, and possibly the existing community building). In the area occupied by these properties a new design would be developed. In addition this option involves retention and refurbishment of the remainder of the Estate together with some infilling amongst the retained properties; and
- Option 5: The complete regeneration of the whole Estate, involving demolition of all the properties on the Estate and redevelopment according to a new design.

	New Homes Constructed	No. of homes retained	No. of homes demolished	Net additional new homes	Comment
Option 1	0	306	0	0	Complete Refurbishment
Option 2	38	287	19	19	Partial Redevelopment
Option 3	51	275	31	20	Partial Redevelopment
Option 4	193	185	121	73	Partial Redevelopment
Option 5	464	0	306	158	Complete Redevelopment

Are these design scenarios financially viable?

As noted above, the refurbishment and redevelopment components of each option need to be considered discretely as:

- Refurbishment relies on whether resource within the HRA could (funding availability) or should (value for money) be allocated; and
- Redevelopment relies on the viability of the option.



Appendix F

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Options can only be taken forwards if both the redevelopment component is viable and the refurbishment component is fundable.

The table below shows that all redevelopment options are viable. The table also confirms that the refurbishment of all options would require the Council to contribute money to make them work without any ability to recover this cost.

	Option 1 – full refurbishment	Option 2 – part redevelopment/ part refurbishment	Option 3 – part redevelopment/ part refurbishment	Option 4 – part redevelopment/ part refurbishment	Option 5 – comprehensive redevelopment
Number of net additional homes	0	19	20	72	158
Number of new, replacement homes at Council rent	0	7	17	93	212
Number of new, additional homes at Tenancy strategy	0	11	12	35	75
Net Present Value for refurbishment	-£662k	-£523k	-£526k	-£493k	n/a
Net Present Value for redevelopment (base scenario)	n/a	£2.6m	£1.27m	£3.15m	£824k

In considering whether to refurbish the Cressingham Gardens estate, the Council has also looked at whether refurbishment of the estate would be value for money. This requires considering the cost of refurbishing properties on the estate with costs of refurbishing other estates. It is estimated that the average cost of refurbishing a home on the Cressingham Gardens estate would be more than double the cost of refurbishing a home in average on other council estates. In the context that there are limited resources and the Council has to make difficult decisions about which estates to prioritise, the Council cannot justify allocating money to the refurbishment of the Cressingham Gardens estate.

To this end only Option 5 can be taken forwards. This is because it is the only option that doesn't need funding from the HRA and as such it is the only option that is financially deliverable. Whilst the redevelopment components of Options 2, 3 and 4 have a higher Net Present Value (NPV), they are not in their entirety deliverable options.

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

