

Financial Viability Workshop

Thursday 18 February 2016 Lambeth Council's notes

Attendees

Julian Hart – JH Estate Regeneration Programme Manager, Lambeth
Pauline Foster – PF Cressingham Gardens Regeneration Programme Manager, Lambeth
Mary Atkins – MA Councilor for Tulse Hill, chair of meeting
Edward Ogundele – EO Independent Resident Adviser
Abbas Raza – AR Local Dialogue
Karl Lewis – KL Local Dialogue

Gerlinde Gniewosz – GG Estate Resident
George Cosh – GC Estate Resident
J Campbell – JC Estate Resident
Chin Ong – CO Estate Resident
Tom Keene- TK Estate Resident
Mariana Nwagboso – MN Estate Resident
Yidong Auang – YA Estate Resident
Rosalind Poh – RP Estate Resident
Chin Foong - CF Estate Resident

MA opened the meeting.

JH opened with his presentation on Financial Viability. He explained how this related to the last workshop meeting looking at the Housing Revenue Account and the financial context for regeneration.

GG disputed the notes from the previous meeting. **JH** stated that the notes were the Council's notes of the meeting. If residents wished to present their own notes of the meeting, then they were welcome to do so.

JH explained how the Financial Q&A's had been distributed throughout the estate in the past couple of days. **GG** asked whether they had gone out to non-resident homeowners. **JH** stated that they had not been posted out to non-resident homeowners and that there was no obligation on the Council to do so. The information has, however, been posted online. **AR** confirmed that the information supplied was relevant to resident homeowners and that a second letter was also sent to secure council tenants with information relevant to them. **AR** also confirmed that the original booklet, starting the consultation process, had been issued to non-resident homeowners.

JH explained the method that Lambeth council use to look at evaluating the viability of projects. There is a different calculation used for refurbishment and redevelopment, with refurbishment done in the context of the HRA, while redevelopment considered the estate alone.

It was asked why land values are in these calculations, as the council owned the land. **JH** explained that this is a model used for assessing profit and risk but in the case of Lambeth the cost of the land purchase is £0 and they are also not looking to make a profit, any potential surplus can be reinvested. Thus for Lambeth the important thing is that future value simply exceeds development costs. Homes for Lambeth however do have to pay the £16,000 debt on each property. This figure is the cost given across all homes owned by Lambeth Council.

Financial Viability Workshop

Thursday 18 February 2016 Lambeth Council's notes

GC asked if the estate is looked at in isolation when calculating viability. **JH** confirmed that viability for redevelopment was considered in isolation and that the financing for refurbishment and redevelopment follow different models.

CO asked for an explanation of how viability was calculated.

JH explained how the Council money received from current rents goes into the Housing Revenue Account, which is ring-fenced, and cannot be used on other council expenditure such as potholes or schools or social care. He stated how the council being the investor in any redevelopment means the margins of profit or surplus can be a lot lower as they do not have shareholders to pay or are looking to make money. **GG** added that money can go into the Housing Revenue Account from non rental/housing sources; **JH** confirmed this but added that this has to be treated as a loan on which the HRA has to pay an interest back to the Council.

It was asked if Lambeth has an issue of making a loss on redevelopment. **JH** stated that there is contingency in the costs to ensure Lambeth does not make a loss and to mitigate the risks. **GG** asked if a crash in house prices happen could this mean that the estate could be left as a construction site. She also stated that there was risk associated with a profit margin forecast of 20%. **MA** gave the example of Clapham Park which was stalled by crash. **GG** reiterated that the council model was susceptible to a crash. **JH** confirmed that there is indeed risk; however the Council intended to incorporate rental property and this would also mitigate against a crash in property prices.

CO asked what the costs were. **JH** reiterated that these were considered commercially sensitive and that the Council will not be releasing any information on costs because this would prejudice any future procurement of construction. **JH** stated that the development process is iterative and that appraisals would be carried out at regular intervals to confirm that the project continued to be viable. **TK** asked if the appraisals are done at frequent times or sporadically. **JH** replied that this depended on the point in the process; sometimes they are done frequently and at others over longer time intervals in particular to inform key decision points, such as prior to a planning application or in advance of procuring construction.

JH set out that value is calculated using the capitalisation approach. The components of value in housing is the initial sale of a house or, if rented, the equivalent value of the rental income. The concept of capitalisation was explained. The value of houses is based upon the market. Affordable housing is subsidised by privately rented homes paying the full market value. **TK** asked if the estate could be 100% affordable homes. **JH** responded that the Council requires a minimum of 40% affordable homes, however there is no maximum level, and planners and the council want to ensure a mixed community. **YD** asked what is the definition of affordable housing. **JH** stated it is a contentious political issue and the policy is changing, however essentially it is anything that is offered at a discounted rate (whether rent or sale), however Lambeth council looks at rents being 40-50% of market rate or potentially lower, this is significantly lower than the 80% of market value that is the statutory limit. In between these two limits there are "LHA rents", which are calculated by consideration of the average wage relating to an area.

GG asked about the mix of the homes in option 5. **TK** stated that there is a dramatic reduction in four bedroom homes, from 28 to 4 and that there was a need for these homes. **GG** stated she knew

Financial Viability Workshop

Thursday 18 February 2016 Lambeth Council's notes

people in the estate that needed more bedrooms not less. **JH** mentioned this is not the final draft and no masterplan has been made yet so this will be noted and taken forward. **MA** stated that the current need across the Borough is mostly for 1 and 2 bed properties. **JH** also reiterated that new 3 and 4-bed properties would be offered at council rent levels, while new 1 and 2-bed properties would be offered at Local Housing Allowance rents. **TK** queried whether the lack of 4-bedroom houses was purely to skew or make viability figure for redevelopment look better. **JH** responded he would confirm this apparent discrepancy.

NOTE: The reason why the appraisals show a reduced number of 4-bedroom properties is that most of the current 4-bedroom properties on the estate are officially 5-person households. Under current design standards and housing allocation criteria, 5-person households would be provided with 3 bed 5person properties. However, as any project is progressed, detailed housing needs assessments would be carried out to meet the Council's commitment to enable those who want to stay on the estate to be able to do so.

JH went onto state what costs had been accounted for in addition to construction costs; these include items such as professional fees and marketing.

CO asked if a bank had been approached for funding. **JH** confirmed this was not the case.

YD stated that homes should be replaced on a like for like basis.

GG requested an analysis of the next mix. **EO** asked if these figures would go into the masterplan, in response to both points. **JH** stated that these figures wouldn't go into the masterplan; if redevelopment took place, then a future masterplanning team would not be committed to any of the existing design work or viability analysis. Rather they would be instructed to seek to meet the Council's objectives.

TK stated that viability was being manipulated through the mix.

GC queried the difference in square foot cost in part equity homes. Some figures have them at £810 some at £500. **JH** answered that this was because the stated values in the assumptions are based upon November 2014 prices, whereas the values applied in the appraisal are those that could be expected to applied in 2020 and onwards. The 2014 figure is a base figure but using historic knowledge and expertise the future value could be calculated.

GC stated that in the July appraisals the cost per square meter was different between a 1-2 bed house, it is not now. **JH** responded that the approach used had changed, updated using latest information.

GG asked if she could see inflation rates of shared equity homes as she had calculated 42% inflation over 5 years. **JH** responded that he would not be releasing any further information. **GG** stated that the market value gap suggests owners won't be able to afford properties currently, and what can be done such as looking into freezing costs. **JH** stated that both existing and new build values would rise in parallel and therefore the percentage of shared equity that homeowners could be expected to achieve would likely remain consistent into the future.

JH stated that the Key Guarantees will ensure residents get a fair deal and these Key Guarantees

Financial Viability Workshop

Thursday 18 February 2016 Lambeth Council's notes

will be moving towards being more helpful for homeowners. A number of measures have been looked at including phasing any rent increase over five years as well as the 4% cut in rent over four years that the Council will be implementing this year. **GC** stated it is not possible to finalise the viability figures while the Key Guarantees need to be finalised. **JH** responded that these are initial viability study is using the best data at present but these things can be factored into future calculations.

MN stated she spoke for many residents on the estate and stated that rents going to Homes For Lambeth will take funds out of the Housing Revenue account meaning that less funding is available for homes. She also said that this was the first time an SPV(Homes for Lambeth) was being used to deliver homes in this way. **JH** confirmed that this was the first time that Lambeth was using an SPV to deliver homes. This is better than if a development partner approach is taken, as the partner would need to generate profit and this would impact how many affordable homes can be provided.

GG stated that rents would be raised by 25% of current rents in redevelopment. **JH** responds that that does not take into account of rate reductions that will happen in the mean time with 1% decrease every year and is also a worse case scenario option. **GG** noted that these rent decreases will happen no matter what option is taken forward. **JH** noted this but also said costs will be mitigated with a gradual increase in rents and the cost of other bills going down such as utilities and services. Overlap the difference including a potential increase in Council Tax will be marginal for residents. **GG** asked what the current rate of service charge is on Cressingham Estate, **JH** responds that he does not know the figure but it is included in rents. This was disputed by **GG** who stated that residents do not pay a service charge.

NOTE: This has since been checked. A reconciliation was carried out by the Council in 2009 and this led to a consistent set of overall charges (rent and service charge) across the estate, appropriate to property size. However, this has led to some properties apparently having no explicit service charge listed in their bills. However, even if no charge is listed, tenants are paying a service charge in their rents.

MN stated that the materials being sent to residents was causing some stress. This was taken onboard by Lambeth's team.

It was asked what the cost of transfer will be. **JH** responded that it will be minimal as the council is effectively keeping the property but the new Housing for Lambeth will have to pay the £16,000 per house debt on the properties, which is around £3.2 million for the whole estate. **GG** stated that the estate only costs £2 million and asked if residents were in effect paying for other estates. **JH** responded that they are not and that all council homes in Lambeth come with the assumed level of debt.

GG enquired as to why the £7 million of grant for SPV is put down as an income despite it needing to be paid back, whilst in other option loans are not included as income. Asked for **MA** to conduct a members inquiry. **MA** states that she will look into it but a Members Inquiry will not be the best way to find out the answer

GC asked if the HRA Business Plan has been released or if the cabinet has seen it. **JH** stated that it has not been released but hopefully will be in the near future. He said that the preparation and completion of the HRA Business Plan was part of a different cycle of Council processes and that



Financial Viability Workshop

Thursday 18 February 2016 Lambeth Council's notes

decisions on other matters, such as the future of Cressingham Gardens could not be held up until every vaguely relevant Council process elsewhere had been published or aligned. The HRA has never before been published by Lambeth Council but it is now becoming common for councils to do so. The process is currently held up in a different process. The revenue and income budget was sent to cabinet in February.

GG inquired about where the figure of 80% of residents returning has come from. **JH** responded that this was based on previous experience of Myatt's Field estate where 80% of people returned. **GG** notes that 80% must be the top end and that on her calculation the council needs it to be 80% in order to make back money in the issue and that already many have wanted to leave. **PF** stated that 25 have expressed an interest at leaving the estate; but there was no certainty that all these would follow through such an expression of interest.

GG enquired about what 'abnormals' (unexpected costs) have been included. **JH** responds that he cannot go into detail on costs.

GC stated that in her opinion it doesn't seem to be ready for a decision to be made at council level and asked if the issues are going to be raised and reported to the cabinet.

GG asked if people have been asked as to what they can afford. **JH** in responded to say that this has not been done.

NOTE: The Council has just released to residents on all its regeneration estates details of existing and future indicative values of homes together with details of mortgage advisers that residents can approach to discuss their personal circumstances.

MN asked how many properties require refurbishment and that she would not need her kitchen done for example.

GG inquired if the contingency abnormal factors in the water main under the estate had been accounted for. **JH** stated that Lambeth was aware of the water main and also worked on a project with a similar water main system so understands the approach required.

GG enquired if costs for a replacement of the Rotunda is included. **JH** responds that a replacement community hall is set in the build costs but no masterplan studies have been done yet so where it could go had not been decided.

GG asked if the knotweed issue on the estate has been accounted for and quoted the costs of dealing with it on the Olympic site. **MA** said she did not know of the issue but knows how expensive dealing with the issue has been elsewhere in the area and has noted the concern.

GG asked if it was alright that their was only 3 days to submit comments after the latest set of questions in time for the Exhibition event. **JH** agreed this is a short amount of time and would extend the deadline to Monday in order to give people as much time as possible to raise further questions on the viability information.

NOTE: It was been decided all questions submitted by Friday 19th will definitely be answered in time for the exhibition, however those asked by Monday 29th February will try to be answered in time for

Financial Viability Workshop

Thursday 18 February 2016 Lambeth Council's notes

exhibition. However, all comments made by 4th March will be fed into the Cabinet Report.

GC asked about staircasing and whether the income generated on this has been calculated at the current market value of the properties. **JH** did not know off hand. **GC** stated that the value they are getting from staircasing would imply that the value of the properties are £1.5 million.

GC asked about the cost comparison of refurbishment and redevelopment. **JH** responded that he can't go into the figures as they are commercial sensitive. **GC** enquired why so much is redacted and that they haven't in previous consultations. **JH** responds that this is due to a change of policy since November 2014 and he cannot conflict with that policy.

GG asked whether affordable accommodation will be pepper-potted or if there will be separate entrances for affordable housing, described as 'poor doors' **JH** stated that the Council did not agree with 'poor doors' and that this matter would be down to the masterplan. **MA** stated that has been brought up before and there will be no 'poor doors'.

GG asked whether different services will be provided to those paying different rents. **JH** responds some different services will be provided as an expectation is higher for those paying a higher rent.

-ENDS-

