

Appendix 1: OBC Executive Summary

1. The London Borough of Southwark ('the council') is delighted to submit its Interim Outline Business Case ('IOBC') for consideration by the Homes and Communities Agency ('HCA'). In the current financial environment the council has reduced the overall risk associated with the project to improve the prospect of delivering it by taking action to reduce the cost of making available the sites to be redeveloped and maximise market interest from investors, developers, contractors and funders.

Strategic Context

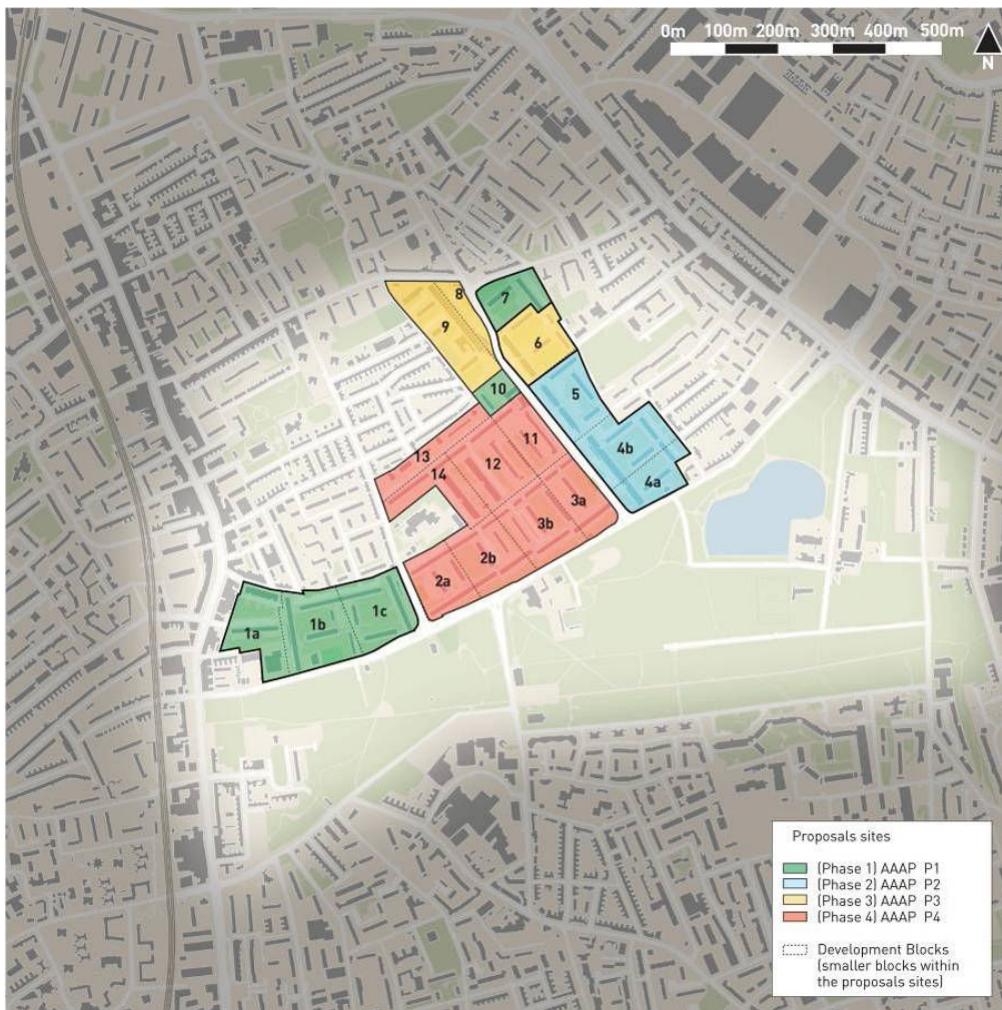
2. Southwark, with its rapidly growing population (currently 274,000 and projected to rise to 309,600 by 2016), is undergoing significant regeneration, including projects such as Elephant and Castle, Canada Water and Bermondsey Spa. However, despite these advances it remains a deprived part of London and with high levels of social rented housing.
3. The Aylesbury Estate forms part of the council's 54,000 Housing Revenue Account (HRA) housing assets. It was constructed between 1966 and 1977 and is one of the most well-known and deprived housing estates in London. The estate covers an area of about 28.5ha, comprises 2,760 homes and around 7,500 people from largely black and ethnic minority groups (68%) live there. Many of the residents of the Aylesbury Estate experience high levels of deprivation and lower than average income levels. Over 80% of the dwellings are social rented, with lower than average owner occupied homes and most of the housing on the estate is below the Government's Decent Housing Standard and is continuing to deteriorate.
4. Over the past few years the council has examined a range of options for improving the estate, including:
 - a) doing nothing about the housing issues on the estate
 - b) transferring the Aylesbury Estate to a Community Based Housing Association in 2001, which was comprehensively rejected by residents at that time
 - c) refurbishing the estate but the potential cost proved to be prohibitively expensive
 - d) demolishing and redeveloping the estate
5. The fourth option, redevelopment was agreed as the preferred way forward by both residents and the council.
6. The council has developed an Aylesbury Area Action Plan ('AAP') that was adopted in January 2010. The AAP is the statutory plan which forms part of Southwark's Local Development Framework ('LDF') and will be used to determine planning applications for the regeneration of the Aylesbury Estate. The AAP sets out the blueprint for the comprehensive redevelopment of the Aylesbury Estate to provide a new high quality, mixed tenure, sustainable neighbourhood that successfully integrates with the surrounding area, with a housing mix ratio that delivers a 1:1 ratio of social rented housing and intermediate housing¹ to housing for sale. Currently, the AAP anticipates the

¹ Intermediate Housing provides a range of different tenures, including New Build Home Buy, Shared Equity, Rent, Social Home Buy and Intermediate Market Rent.

Aylesbury Estate to be regenerated in four phases over the next 20 years. These phases follow on from Phase 1a, which is currently under construction and started before the AAP was approved. Phase 1a will deliver a more balanced and sustainable community.

7. The Aylesbury PFI Housing Project comprises four sites (sites 1b, 1c, 8 and 9), located in Phases 1 and 3 of the AAP (See Figure 1).

Figure 1: The Area Action Plan Area



8. The composition of the four phases comprising the AAP is as follows;
 - Phase 1 comprises sites 1b, 1c, 7 & 10
 - Phase 2 comprises sites 4a, 4b, & 5
 - Phase 3 comprises sites 6, 8 & 9
 - Phase 4 comprises sites 2a, 2b, 3a, 3b, 11, 12, 13 & 14
9. The council requires an integrated mixed tenure outcome from the development of the above sites. Hence the sites comprising the Aylesbury PFI Housing Project demand a single planning application that delivers the target 1:1 ratio of social rented housing and intermediate housing to housing for sale. Consequently, an integrated proposal has been put in place to not only deliver the social homes (funded via PFI) but also the delivery of the other types of home, i.e. intermediate housing and homes for sale. Thus, the Aylesbury PFI

Housing Project cannot be assessed in isolation because the success of the AAP and the PFI are inextricably linked. It should be noted, however, that the council expects its choice of supplier to provide the above accommodation to be primarily driven by value for money from a PFI perspective.

Scope of the Aylesbury PFI Housing Project

10. The scope of the 29-year Aylesbury PFI Housing Project has changed since the council submitted the original Expression of Interest for PFI funding in 2008. The council implemented this change to;
 - reduce the overall level of risk associated with the project which arose after it submitted its Expression of Interest, due to the downturn in the UK economy and the deterioration of the local property market that has resulted in the removal of a £20 million cross subsidy from the homes for sale to the homes for social rent in the PFI financial model;
 - improve the deliverability of the project and the overall programme by;
 - reducing the number of leaseholder interests the council must acquire from approximately 170 (costing £24 million) to about 90 at an approximate cost of £12 million
 - restructuring the order in which sites are redeveloped in order to optimise potential land values to the south of the estate and the scope for cross-subsidies from the provision of housing for sale to the homes for rent into the redevelopment of future phases;
 - removing the potential requirement for Social Housing Grant ('SHG') to develop sites 1b and 1c – estimated at around £30.2 million. The availability of SHG funding going forward is uncertain given the Government's current financial priorities but the council will still explore the suitability of this funding for other sites on the Aylesbury Estate;
 - minimising the spend to be funded by the Infrastructure Tariff during the early stages of the Aylesbury Regeneration Programme to ensure that sufficient funds are available when the strategic infrastructure, such as district heating, is required;
 - retaining responsibility for rehousing, demolition and site clearance within the council as well as responsibility for delivering vacant possession, thus providing immediately developable sites to bidders. (While the council will retain this responsibility it will seek to work with the developer to use the same contractor to manage the demolition and the construction of the new dwellings in order to benefit from the reuse of reclaimed building materials);
 - allowing the project to become even more bankable by taking on board the results of the council's soft market testing by reducing the contract term from 30-years to 29-years (4-year build period and minimum 25-year operations period) based on feedback from three banks consulted independently of each other;
 - stay within the HCA's initial PFI credit approval of £181million
11. The Aylesbury Housing PFI Project previously comprised 410 social housing units located wholly in Phases 2 & 3. The council has agreed that it should now comprise a minimum of 360 social housing units located on sites 1b, 1c, 8 and 9 in phases 1 and 3 - which will be managed by a registered provider ('RP'). Aspects of these management arrangements, such as grounds maintenance

and communal cleaning, will be market tested and/or benchmarked periodically to assure the council and the HCA that value for money is delivered throughout the 29-year contract period. In parallel with the Aylesbury PFI Housing Project sites 1b, 1c, 8 and 9 are also expected to deliver:

- 131 intermediate homes, and
 - 452 homes for outright sale
12. When the above homes, physically provided on the same site but de-coupled contractually from the Aylesbury PFI Housing Project, are combined with the 360 PFI housing (council housing) units it gives a minimum total of 943 new dwellings. This approach is based the Aylesbury PFI Housing Project being a Housing Revenue Account ('HRA') PFI project. This decision to structure the Aylesbury PFI Project as a HRA scheme not only:
- supports the council's new administration's objective and policy of building more council housing and is a continuation of the principles on which the council's previous administration based its Expression of Interest for PFI Credits in 2008 to the HCA;
 - it makes the scheme affordable to the council given that it is not in a position to underwrite any additional costs (over and above the funding it has already provided) from the General Fund².
13. Any alteration from this scheme being driven by the council's HRA would require a change to one of the council's fundamental policy objectives, i.e. the provision of more council housing.. In light of stringent savings targets currently required by its General Fund and notwithstanding the magnitude of such a policy shift, the council is not in a position to increase the probability of any detrimental financial impact on this fund or its ability to deliver its savings targets. This is because cost increases attributable to the General Fund but falling outside of the grant formulae must ultimately be defrayed via increases to the council tax burden. Council tax may not be possible given the freeze on council tax requirements issuing from CLG (Department for Communities and Local Government) and the difficulty the council would face in meeting any additional costs were these to arise following a change from a HRA based approach to a Non-HRA based approach.
14. A consequence of the factors outlined above is that the choice of Non-HRA PFI over HRA PFI as the preferred delivery option would place the council in a position that would have serious implications for its consideration of the PFI being an appropriate of progressing the regeneration of the Aylesbury Estate.

Council Commitment

15. The council is committed to the delivery of the AAP and the Aylesbury PFI Housing Project. Both have cross party support within the council and are seen as priority projects. This support is clearly demonstrated through the council's £38million plus commitment in the Aylesbury Estate and the Aylesbury PFI Housing Project sites, which includes:

² The council's General Fund is the finance account where all council services, excluding its housing revenue account (HRA) activities, are funded. The General Fund is very sensitive to any additional commitments. The HRA is a protected and ringfenced account into which Government funds are paid specifically for the purpose of maintaining council housing.

- Purchasing of 90 leasehold interests at an approximate cost of £12 million;
 - Proposals to fund the demolition and site clearance costs at an approximate cost of £11 million for demolition; and
 - Funding of the Section 106 (S106) and Infrastructure tariff for the social housing units of the Aylesbury PFI Housing Project (estimated at approximately £7.2million) because these costs will not be funded by the HCA using PFI credits;
 - Committing to an annual revenue contribution to the project, currently estimated at £170,000 per annum (indexed). This contribution is in addition to the full use of Management and Maintenance Allowance received under the terms of the HRA;
 - Funding a programme budget, estimated at £4.0m³, for the procurement of the Aylesbury PFI Housing Project, covering
 - Advisors' costs; and
 - Other procurement costs, printing, advertising, etc
16. The council has established a robust project team and governance board experienced in delivering PFI housing schemes and the Building Schools for the Future programme to drive the delivery of the project. The council has also appointed external advisors, including financial advisors (Grant Thornton) and design advisors (Urban Initiatives Limited). The council is currently in the process of appointing technical and legal advisers.