

WOODBERRY DOWN ESTATES

**EDUCATION AND HOUSING OPTION APPRAISAL
THE RESULTS OF THE DEMAND AND FINANCE TEST**

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I. INTRODUCTION

This report describes the results of the Demand and Finance Test. It continues the Option Appraisal discussion contained in the Woodberry Down estates report "Education and Housing Option Appraisal: Introduction and Options Available". That report identified seven education and 16 housing options and should be read as a preface to this report.

The Demand and Finance test is the first of the four tests and has been applied to all of the education and housing options. The consequence of this test is to reduce the number of available options. The selected options are tested against different characteristics and those which do not pass this test are eliminated.

This test is called the Demand and Finance Test because the two characteristics which contribute most towards eliminating options are long-term housing demand and the impact on education provision, and the availability and use of Council finance. High and changing housing demand and lack of Council finance, or inability to use it for building new schools and homes, automatically eliminates many options.

Hackney has high housing demand and the Council must demonstrate that this is the case. The evidence for this comes from two sources.

1. The Housing Supply and Demand Survey which was carried out in April 1997 showed that those in the special needs category was barely matched by the available housing in the years 1997/98, 1998/99, 1999/00 and 2000/01. In addition there were over 5000 other families on the waiting list and requiring accommodation. The number in bed and breakfast accommodation continues to grow.
2. The number of homes in Hackney is planned to rise. The current planning guidance for London requires an additional 11,000 new homes to be provided in Hackney, as either new or refurbished properties, between 1997 and 2016.
3. There is considerable anecdotal evidence, and evidence from direct observation, of overcrowding on the Woodberry Down estates and the areas around it particularly Stamford Hill.

During the discussion on the options identified so far housing demand is often referred to. A judgement has been made against the background described above. For example, some options, such as Option 1, depend on low housing demand to be viable. Whilst this is a circumstance which obtains in some parts of north east England it does not apply to the Woodberry Down estates. It would therefore not be appropriate to pursue this option further.

With regard to finance this is a rather different matter. For many of the options considered in this report it is very unlikely that the Council itself would ever have the resources to carry out the work. The Council's own investment resources are very limited and have to be spread across all service areas. The investment needs

of the Woodberry Down estates are far greater than the total sum of investment resources available to the Council in the foreseeable future. There is no reason to suppose that resources directly available to the Council will increase in future years. This view is reflected in the discussion on the options which follow.

2. METHOD OF ANALYSIS

The principal characteristics against which judgements on the housing options have been made have been identified in this report as:

Housing demand
The availability of Council finance

There are other characteristics which are useful in this process but nothing more. A passing reference only has occasionally been made to them in this analysis. They can be put as questions, and they are:

What is the availability of replacement housing?
What is the condition of the education and housing stock?
Can change of tenure take place?
Is the built density too high?
Are the flat sizes appropriate for current and future needs?
Are the objectives satisfied?

For example Hackney has a long-term housing demand and there is some availability of replacement housing for decanting, although small, and more will have to be provided. The condition of the stock on the Woodberry Down estates is either poor or bad, there is suitable or low built density but with probably inappropriate flat size in terms of number of bedrooms for the current and future population.

These answers can be used to help judge the suitability of the 14 housing options for further consideration in the following way. Using Option 1 as an example, Managed Decline with no Replacement, this is only applicable if there is no long-term housing demand. Because Hackney has a long-term housing demand this option need not be considered further.

In the same way Option 9 is applicable if there is long-term housing demand, which there is, and if there is ample availability of replacement housing, which there is not. Hackney has a long-term demand for housing but only some availability of replacement housing and is unlikely to have the financial resources to do it.

The same reasoning when applied to the other options has eliminated seven of the 14 options. There may of course be other reasons for excluding some of the other options. Additional options may need to be considered together with other characteristics as the appraisal proceeds.

The 14 housing options have also been compared with the seven education options. The elimination of some of the housing options has eliminated some of the education options. For example, any housing option which entails increasing the resident population would preclude the consideration of education Option 2, Managed Decline and Closure of Woodberry Down School. The result of this type of analysis has been to reduce the education options to four.

The 14 housing options have been divided into three groups. They are those in which:

The land is used for other purposes after demolition and which are described in Section 3.

The ownership is transferred from the Council to a private organisation and which are described in Section 4.

The ownership is retained by the Council and which are described in Section 5.

3. HOUSING OPTIONS AVAILABLE: LAND USED FOR OTHER PURPOSES

HOUSING OPTION 1:

MANAGED DECLINE WITH NO REPLACEMENT; REHOUSING INTO OTHER STOCK AND SOME REDEVELOPMENT FOR OTHER USES

This assumes no further investment in the stock other than perhaps health and safety works. As the stock gradually becomes unfit for use over time the residents would have to be decanted into other stock off the estates. The redundant stock would then have to be demolished and the land would be released for other uses other than housing. This option is only appropriate if there is no long-term housing demand which is not the case in Hackney. Education Option 2 is applicable to this housing option.

This option will not be considered further.

HOUSING OPTION 2:

DEMOLITION AND REDEVELOPMENT FOR OTHER USES

As with Option 1 this option is only appropriate if there is no long-term housing demand and therefore no large population to be displaced. It is therefore not an appropriate option for the Woodberry Down estates. Education Option 2 is applicable to this housing option.

This option will not be considered further.

4. HOUSING OPTIONS AVAILABLE: OWNERSHIP TRANSFERRED FROM THE COUNCIL

HOUSING OPTION 3:

COUNCIL RENOVATES THEN TRANSFERS THE STOCK

This is similar to Option 4 except that by renovating the stock prior to transfer the Council would probably be converting the value of the stock from negative value to positive value. The stock will have a negative value because of its poor condition. If the Council were to renovate the stock and then transfer it, presumably at a positive value, then the stock would have to be in good condition for the Council to be able to afford to do it to begin with. If it was not in good condition it would be too expensive for the Council. The commentary on finance in Section I applies to this option. This option is only appropriate if the stock was in good condition and if the Council could finance the renovation, neither of which is the case. If the refurbishment is extensive then temporary decant space will be required. Education Options 1, 3, 4 and 5 are applicable to this housing option.

This option will not be considered further.

HOUSING OPTION 4:

COUNCIL TRANSFERS THE STOCK WHICH IS THEN RENOVATED

This option assumes that there is no demolition and therefore the stock has to be in such a condition as to make renovation an economic proposition. It represents one of the conventional transfer options and its financial viability will have to be tested although it is likely to be more expensive than Option 5 which assumes some demolition and rebuilding. Temporary decant space will be required. Education Options 1, 3, 4 and 5 are applicable to this housing option.

HOUSING OPTION 5:

COUNCIL TRANSFERS THE STOCK; SELECTIVE DEMOLITION, REBUILD AND RENOVATION

This is similar to Option 4, except that selective demolition is assumed because some of the stock is in bad condition. Therefore there must be some availability of replacement housing either for permanent or temporary decanting. The financial appraisal of this option may be sensitive to the proportion of stock which is demolished. It will also be sensitive to maintaining the existing built density, or increasing or decreasing it. Temporary and permanent decant space will be required. Education Options 1, 3, 4 and 5 are applicable to this housing option.

HOUSING OPTION 6:

WHOLESALE DEMOLITION AND REBUILD BY PRIVATE SECTOR AT HIGHER DENSITY

This option is the private sector version of Option 10. Issues to be considered with this are who pays for the demolition of the stock, and who subsequently owns the land and buildings. Temporary and permanent decant space will be required. Education Options 1, 3, 4 and 5 are applicable to this housing option.

5. HOUSING OPTIONS AVAILABLE: OWNERSHIP RETAINED BY THE COUNCIL

HOUSING OPTION 7:

COUNCIL RETAINS THE STOCK BUT DOES THE MINIMUM LEVEL OF WORKS UNDER CURRENT FUNDING

An important part of Option Appraisal is the assessment of the option which shows what would happen to the estates if capital funding was not forthcoming. This is often referred to as the base retention case, and its appraisal is a compulsory element of large scale voluntary transfers and it will therefore be considered at Woodberry Down estates. The decision to retain the stock and carry out the minimum level of works depends largely on the stock condition.

In order to make this appraisal it is necessary to have the current and past costs of repair and maintenance of the stock in order to get a profile of this expenditure. A view will have to be taken of the extent to which this minimum level of work will retain the stock in a satisfactory condition, particularly the stock which is defective. Also an assessment will have to be made of the likely life of the stock assuming no capital investment.

Education Options 1, 3 and 4 are applicable to this housing option.

HOUSING OPTION 8:

COUNCIL RETAINS AND RENOVATES THE STOCK

The Council would only retain and renovate the stock if there was a long-term housing demand and if there was some availability of replacement housing, largely for temporary decant purposes. It does however require the stock to be in good condition for the Council to be able to afford to do this itself. In the case of Woodberry Down, the stock is in poor or bad condition, and in any case some of the blocks may have to be demolished. The commentary on finance in Section 2 also applies to this option. This option is only appropriate if the stock was in good condition and if the Council could finance the renovation. Education Options 1, 3 and 4 are applicable to this housing option.

This option will not be considered further.

HOUSING OPTION 9:

WHOLESALE DEMOLITION AND REBUILD BY THE COUNCIL AT CURRENT DENSITY

This is an appropriate option to consider in an area with long-term housing demand. It requires a steady supply of replacement housing for either temporary or permanent decant purposes, which in the Woodberry Down area is problematic. It also requires all the housing stock to be in such poor condition that repair and improvement is uneconomic. Not all the stock is beyond repair. It is unlikely that the Council will ever have the funds for this investment. The comments on finance made in Section I also apply. This option is only appropriate if all the stock required demolition and if the Council could finance the reconstruction. Education options 3 and 4 are applicable to this housing option.

This option will not be considered further.

HOUSING OPTION 10:

WHOLESALE DEMOLITION AND REBUILD BY THE COUNCIL AT A HIGHER DENSITY

The commentary on Option 9 applies to this option, but on a larger scale. In addition it is only appropriate if the estates were at a uniform low density. Education options 3 and 4 are applicable to this housing option.

This option will not be considered further.

HOUSING OPTION 11:

SELECTIVE DEMOLITION AND REBUILD; RENOVATION BY THE COUNCIL

The commentary on Option 8 also applies to this option together with the comments made in Section I. This option is only appropriate if the Council could finance the redevelopment. Education options 1, 3 and 4 are applicable to this housing option.

This option will not be considered further.

HOUSING OPTION 12:

COUNCIL PROCURES A REPAIR AND MAINTENANCE SERVICE PROVISION CONTRACT INCLUDING SELECTIVE DEMOLITION, REBUILD AND RENOVATION

This option is applicable to all the variations of the eight estate characteristics referred to in Section 2. It is essentially a Public Private partnership procurement contract, under the Private Finance Initiative, based on a design build, finance and

operate arrangement. It will apply to new and refurbished housing. Education options 1 and 3 are applicable to this housing option.

HOUSING OPTION 13:

COUNCIL PROCURES A REPAIR AND MAINTENANCE SERVICE PROVISION CONTRACT INCLUDING SELECTIVE DEMOLITION, REBUILD AND RENOVATION; SERVICE PROVISION FOR OTHER SERVICE PROVIDERS

This option is applicable to all the variations of the eight estate characteristics referred to in Section 2. It is essentially a Public Private Partnership procurement route, under the Private Finance Initiative, with say a 30-years service provision contract based on a new and refurbished buildings for housing, education, health care and other facilities. Education options 1, 3, 5 and 6B are applicable to this housing option.

HOUSING OPTION 14:

COUNCIL SELECTIVELY SELLS STOCK TO CROSS FUND REFURBISHMENT OF RETAINED STOCK

In order that the Council could sell stock selectively it must have stock which is in good condition and with a positive value. Stock on the Woodberry Down estates is either in poor or bad condition, and probably has a negative value. However the land probably has a high value which may affect the financial outcome of this option. Education options 1 and 3 are applicable to this housing option.

6. SUMMARY OF HOUSING OPTIONS REJECTED AND SELECTED

REJECTED OPTIONS

As a result of the above review the following options have been rejected:

LAND USED FOR OTHER PURPOSES

1. Managed decline with no replacement; rehousing into other stock and some redevelopment for other uses
2. Demolition and redevelopment for other uses

OWNERSHIP TRANSFERRED FROM THE COUNCIL

3. Council renovates then transfers the stock

OWNERSHIP RETAINED BY THE COUNCIL

8. Council retains and renovates the stock
9. Wholesale demolition and rebuild by the Council at current density
10. Wholesale demolition and rebuild by the Council at a higher density
11. Selective demolition and rebuild; renovation by the Council

SELECTED OPTIONS

The following options have been chosen to take forward to the next stage which is to apply the Net Present Value test; the second test. This will be the subject of another report

OWNERSHIP TRANSFERRED FROM THE COUNCIL

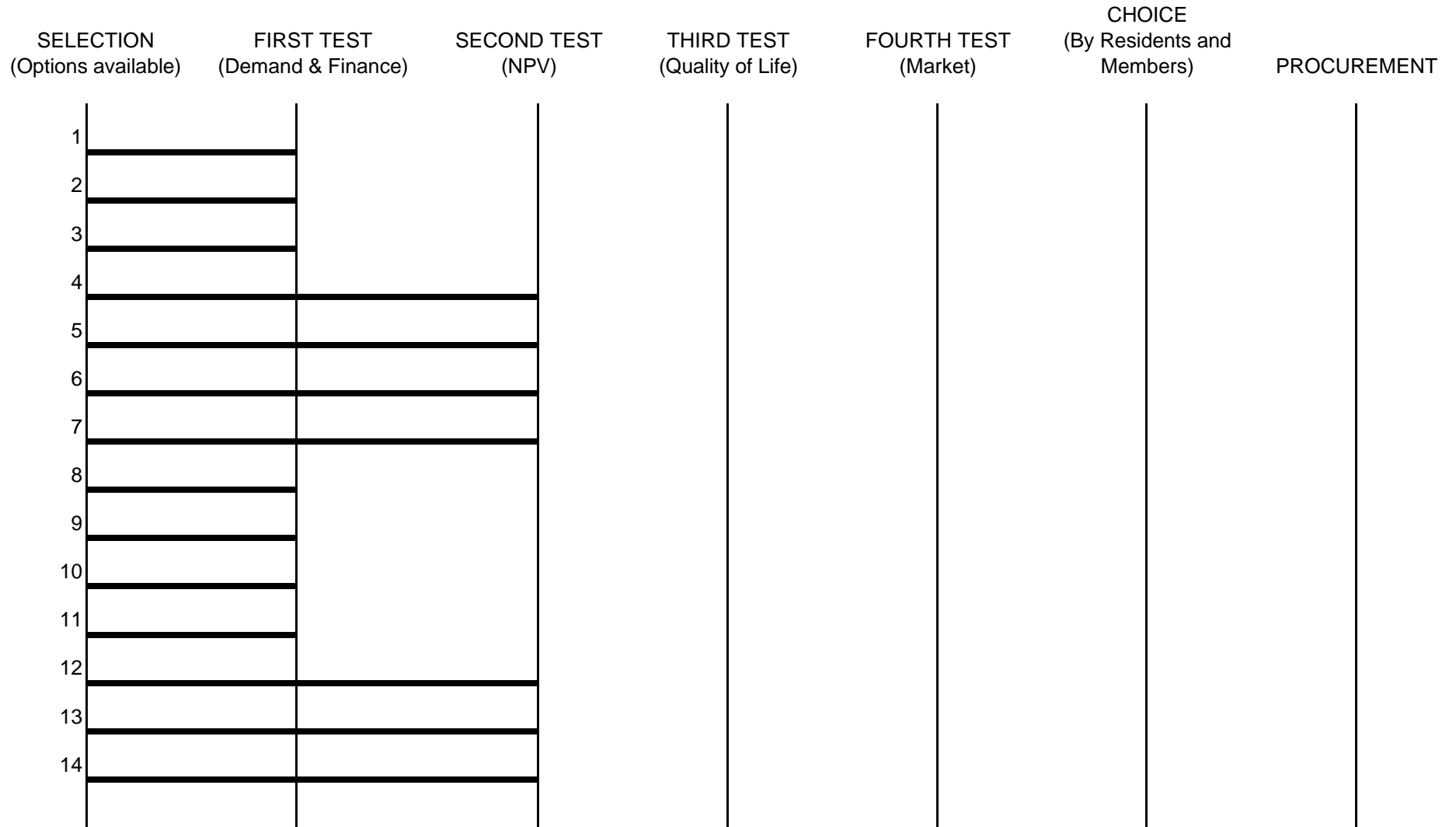
4. Council transfers the stock which is then renovated
5. Council transfers the stock; selective demolition, rebuild and renovation
6. Wholesale demolition and rebuild by private sector at higher density

OWNERSHIP RETAINED BY THE COUNCIL

7. Council retains the stock but does the 'minimum' level of works under current funding
12. Council procures a repair and maintenance service provision contract including selective demolition, rebuild and renovation. Land and buildings remain in the ownership of the Council
13. Council procures a repair and maintenance service provision contract including selective demolition, rebuild and renovation; service provision for other service providers. Land and buildings remain in the ownership of the Council
14. Council selectively sells stock to cross fund refurbishment of retained stock

Diagram I illustrates these results. This diagram will be progressively updated as each test is carried out.

Diagram 1 - Selection and Testing of Housing Options



7. THE EDUCATION OPTIONS AVAILABLE

The options which have been identified so far, and which are subject to the approval of the Governors, are described below. It is acknowledged that closure of the school is not a consideration for the Council.

The approach which has been adopted with the education options is similar to that adopted with the housing options, although with a slightly different emphasis. The demand element of the test relates to school roll projections in the area. This includes the number of surplus places and the capacity of other local schools to accommodate increased numbers.

The discussion on the availability of finance is similar to that which has been described in Section I of this report in relation to housing. Council capital resources to deliver major refurbishment or redevelopment programmes is either very limited or will not be available.

The seven education options are:

EDUCATION OPTION 1

COUNCIL CONTINUES WITH CURRENT MANAGEMENT AND MAINTENANCE PROGRAMME

If demand remains broadly the same as it is now then this option is a practical proposition. It is applicable to housing options 3, 4, 5, 6, 7, 8, 11, 12, 13 and 14.

EDUCATION OPTION 2

MANAGED DECLINE/CLOSURE OF WOODBERRY DOWN SCHOOL, PUPILS TRANSFERRED TO NEIGHBOURING PRIMARY SCHOOLS

The demand for primary school places is high and will continue to be so which means that this is not an appropriate option. It is applicable to housing options 1 and 2.

This option will not be considered further.

EDUCATION OPTION 3

REFURBISHMENT OF EXISTING SCHOOL TO IMPROVED STANDARDS

This may be an affordable option for the Council and will have to be considered taking into account the relative priority within Hackney of improvements to Woodberry Down school. It is applicable to housing options 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13 and 14.

EDUCATION OPTION 4

DEMOLITION AND REPLACEMENT SCHOOL BUILT BY THE COUNCIL

This is not a financially practical proposition for the Council. It is applicable to housing options 3, 4, 5, 6, 7, 8, 9, 10 and 11.

This option will not be considered further.

EDUCATION OPTION 5

COUNCIL TRANSFERS THE LAND SUBJECT TO REPROVISION OF A NEW SCHOOL UNDER COUNCIL OWNERSHIP

Arrangements such as this often provide a way of providing funding, and it fits in rather well with some of the housing options. It is applicable to housing options 3, 4, 5, 6 and 13.

EDUCATION OPTION 6A

COUNCIL ENTERS INTO A SERVICE PROVISION CONTRACT FOR NEW EDUCATIONAL FACILITIES ON A STANDALONE BASIS

Standalone service provision contracts, usually on a procurement basis using the Private Finance Initiative, are not appropriate on a standalone basis for comparatively small schools such as Woodberry Down. The Treasury Task Force and the commercial position taken by service providers has made this clear. This option is not applicable to any of the housing options.

This option will not be considered further.

EDUCATION OPTION 6B

COUNCIL ENTERS INTO A SERVICE PROVISION CONTRACT FOR NEW EDUCATIONAL FACILITIES ON A BUNDLED BASIS WITH OTHER SERVICE PROVIDERS

By combining the provision of new or refurbished education facilities with the provision of say health and housing provision, known as bundling, is a convenient way of financing relatively small elements of the whole such as Woodberry Down School. By adding several small parts together it makes a more attractive financial package. It is applicable to housing option 13.

8. SUMMARY OF EDUCATION OPTIONS REJECTED AND SELECTED

REJECTED OPTIONS

- 2 Managed decline/closure of Woodberry Down School, pupils transferred to neighbouring primary schools.
- 4 Demolition and replacement school built by the Council.
- 6A Council enters into a service provision contract for new educational facilities on a standalone basis.

SELECTED OPTIONS

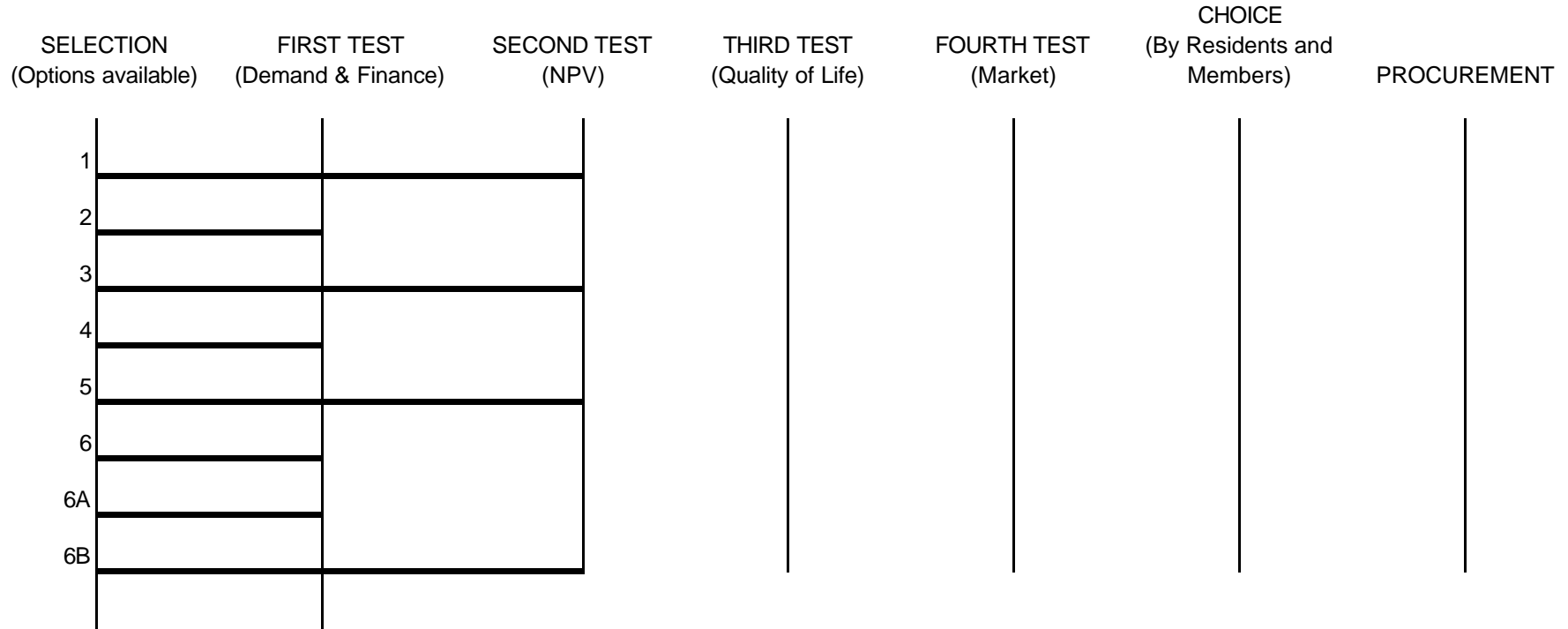
- 1 Council continues with current management and maintenance programme.
- 3 Refurbishment of existing school to improved standards.
- 5 Council transfers the land subject to reprovision of a new school under Council ownership.
- 6B Council enters into a service provision contract for new educational facilities on a bundled basis with other service providers.

Diagram 2 illustrates these results. This diagram will be progressively updated as each test is carried out.

The following table shows the relationship between the seven selected housing options and the four selected education options all of which have passed the Demand and Finance Test.

| SELECTED HOUSING OPTIONS | SELECTED EDUCATION OPTIONS | | | |
|--------------------------|----------------------------|---|---|----|
| | 1 | 3 | 5 | 6B |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | | | | |
| 12 | | | | |
| 13 | | | | |
| 14 | | | | |

Diagram 2 - Selection and Testing of Education Options



These will now be subject to the second test. This is described in the Woodberry Down estates report "Education and Housing Option Appraisal: Introduction and Options Available". The second test is the Net Present Value (NPV) test. This will be applied to the seven selected housing options and will incorporate each of the selected education options as appropriate.

It is acknowledged that notwithstanding the results of the Demand and Finance test described in this report, and the NPV test the results of which will be reported on separately, the recommended options may be a combination of two or more of the housing options selected in this report. This is likely because the estates are not being considered as a re-provision of the uniform tenure, ownership and built form which exists now.