

THE LONDON BOROUGH OF SOUTHWARK

**TOWN AND COUNTRY PLANNING ACT 1990
AND ACQUISITION OF LAND ACT 1981**

Revised Inquiry into

**THE LONDON BOROUGH OF SOUTHWARK
(AYLESBURY ESTATE SITES 1B-1C)**

COMPULSORY PURCHASE ORDER 2014

PINS REFERENCE: NPCU/CPO/A5840/74092

**Proof of Evidence of
Simon Morrow - BSC, MRICS
For the Aylesbury Leaseholders Group**

12 December 2017

List of appendices:

- **SM1** Notting Hill Housing Trust's (NHHT) March 2015 Viability Statement
- **SM2** E-mail from Ms B.Robinson to LBS dated 2 nd October 2017
- **SM3** Letter from LBS to Ms B.Robinson dated 23 rd October 2017
- **SM4** E-mail from Ms B.Robinson to LBS dated 26 th October 2017
- **SM5** E-mail from LBS to Ms B.Robinson dated 31 st October 2017
- **SM6** E-mail from Ms B.Robinson to LBS dated 7 th November 2017
- **SM7** E-mail from Ms B.Robinson to LBS dated 20 th November 2017
- **SM8** E-mail from LBS to Ms B.Robinson dated 27 th November 2017
- **SM9** BPTW April 2005 report-Refer to JB CD 1
- **SM10** Frost Associates report May 2005-refer to JB CD 1
- **SM11** 27 th September 2005 LBS Executive report and annexes
- **SM12** Levitt Bernstein 2005 Report-Refer to JB CD 1
- **SM13** Savills research article (5th paragraph: "It is based on an old land buyer's rule of thumb: land is 1/3rd of GDV."): http://www.savills.co.uk/research_articles/186866/188996-0
- **SM14** Explanatory note as to how figures in Paragraph 14 are derived
- **SM15** Joshua v London Borough of Southwark (ACQ/82/2013) (para. 22 (iv))
- **SM16** John v London Borough of Southwark (ACQ/100/2013) (para 33 (iv))
- **SM17** Cost Estimate for Refurbishment of Chiltern & 120-149 Chartridge
- **SM18** Option to retain Chiltern

Introduction

- 1 My name is Simon Morrow. I am a chartered quantity surveyor with 29 years' experience.
- 2 I have been engaged by the objectors to the CPO to review cost information in regard to the following:
 1. The 27th September 2005 decision by the London Borough of Southwark (LBS) to demolish the Aylesbury estate.
 2. Notting Hill Housing Trust's (NHHT) March 2015 Viability Note **(SM1)**.
- 3 I have also been asked to review the costs of refurbishing 120-149 Chartridge and Chiltern blocks in order to see if the costs of refurbishing them (with the possibility of adding some new housing) would be a viable alternative to demolition.
- 4 Having reviewed the information provided so far by LBS I am concerned that they have not carried out the necessary due diligence at critical stages of the decision making process. The information I have been provided with by LBS to date falls far short of the level of due diligence that I would expect of a public body or a developer (Refer to Paragraphs 6 & 7 below for examples of this).
- 5 LBS have stated that they either do not hold the detailed cost information I have requested or are withholding it on the basis of commercial confidentiality **(SM2-SM8)**. If LBS are not willing to provide detailed cost information or have their figures scrutinised, I do not see how it is possible for them to demonstrate the economic benefits of the proposed scheme. It is of extreme concern that financial information is not being made available by LBS. The non-disclosure of information, in my opinion, considerably undermines the validity of LBS' figures, particularly given that a large proportion of the information requested is historic and therefore could not be considered commercially confidential.

27th September 2005 Decision to Demolish

- 6 In September 2005 LBS made the decision to demolish the Aylesbury estate rather than refurbish. I requested to see details of what cost comparison exercises Southwark had carried out in order to inform this decision. I would have expected to see a cost comparison between the demolition option and the refurbishment option at the very least. Such costings would be underpinned by further detailed analysis, including the following:
- Demolition, construction and refurbishment costs, design fees and management costs.
 - Decanting, land acquisition and compensation costs.
 - 30 year cash flow projections with detailed back up to income and expenditure and net present value calculations.
 - Sensitivity analysis.
 - Risk register.
 - Assumptions upon which the costings were based.
- 7 Despite requesting the above information, LBS have not been able to provide me with any cost comparisons or any of the detailed back up noted above **(SM2-SM8)**. Such information is crucial in order for LBS to demonstrate that taxpayers' money is being wisely invested.
- 8 The only information LBS has provided me with is the BPTW April 2005 report, **(SM9)** the May 2005 Frost Associates report **(SM10)** and the 27th September 2005 LBS Executive report **(SM11)** which contains some generic information but no detailed back up.
- 9 Whilst LBS may have considered that refurbishment was not the preferred option it could well be that complete demolition and rebuild would put LBS in a worse financial position than if they were to refurbish, hence the importance of carrying out the cost comparison noted above.
- 10 I have reviewed the 27th September 2005 cabinet paper and its annexes. We were informed by Southwark **(SM3)** that the costings underpinning

this are based on the Levitt Bernstein 2005 Report **(SM12)** and the Frost 2005 Report **(SM10)**.

LBS have not been able to provide me with any detailed cost back up to demonstrate how the costs in the cabinet paper are derived.

- 11 It is clearly of concern that LBS should make a decision to sell a public asset based on such limited information.

Review of Notting Hill Housing Trust Financial Viability Note dated 4th March 2015

- 12 I have examined the NHHT Viability Note **(SM1)**. I was initially informed that LBS did not have the cost information which backs up the viability note **(SM3)**. I was then subsequently told that the information would not be released as it was subject to commercial confidentiality **(SM5)**. I am of the opinion that LBS will need to release this information in order to demonstrate the economic benefit of the scheme, particularly given some of my initial concerns noted below.
- 13 I would like to view the cost detail behind the NHHT Viability Note **(SM1)** before commenting further as on first viewing the figures do not appear to conform to norms that I would expect. Notwithstanding this, two issues immediately appear to me irregular:
 - The price paid for the land on the First Development Site is £17.5M **(SM1 table column 3)**, which equates to £21,472 per plot (£17.5M divided by 815 properties) **(SM1 table, column 2)** which appears extremely low given sales prices for properties in the area. As a rough rule of thumb, land price is approximately 1/3rd the value of the sale price of the property **(SM10)**
 - I have been informed by LBS that the total amount that they have expended to date on acquisition and compensation is £53.6M. **(SM3)** Whilst some of this may have been in relation to Site 1a (which would be a relatively small cost-I believe approximately 10 leaseholders were compensated), the total price that NHHT state they will be paying for the whole of the Aylesbury estate is only £51M **(SM1, table column 5)**

which suggest that LBS may well be losing money from the sale of the land.

Refurbishment of 120-149 Chartridge and Chiltern

14 I have reviewed the April 2005 BPTW report (**SM9**) and the May 2005 Frost Associates Report (**SM10**).

The cost per dwelling within these reports (refer to **SM14** for audit trail) for carrying out improvements and refurbishment of the blocks in question to Decent Homes + standard can be summarised as follows:

Block	BPTW Cost	Frost-allowance for professional fees & management	Sub-Total	Frost 10% Contingency	Total	Total per dwelling	Comments
120-149 Chartridge	£1,796,196	£243,946	£2,040,142	£204,014	£2,244,156	£74,805	30 Nr Dwellings
Chiltern	£11,380,283	£1,491,853	£12,872,136	£1,287,214	£14,159,350	£82,322	172 Nr Dwellings

15 I requested to see the detailed data underpinning these figures as the totals appeared much higher than I would have anticipated in 2005. In recent tribunal cases in relation to the Aylesbury estate, LBS's estimate of the cost of refurbishing a property on the estate in 2014 was between £30,000 and £40,000 per dwelling (**SM15** para 22 (iv); **SM16** para 33 (iv)).

16 On an initial view I had reservations about the cost of refurbishment per dwelling included within the BPTW and Frost reports due to the disparity between these costs, the costs noted in Paragraph 15 above and two other council estate refurbishment schemes I have reviewed in the last 3 years. A high level review of the BTPW figures has revealed the following:

- The figures include areas of remodelling over and above Decent Homes + (eg new stair and lift cores and combined heat and power (CHP) works). There may well be further enhancement works over and above this.

- For those items where it is possible to carry out a direct cost comparison it is apparent that some of the costs in the BPTW estimate are overstated. For example, the replacement kitchen cost of £4,500 per kitchen is some 30-50% more expensive than the cost that LBS is currently paying for kitchen replacements.

- 17 As LBS have not provided me with the information requested and given my concerns noted above, I have produced my own estimate to refurbish 120-149 Chartridge and Chiltern to Decent Homes + standard. My intention was to use LBS' framework contract rates for its "Warm, Dry, Safe" contracts, thereby giving an updated cost for the works, based on current market prices. Whilst working for another client in July 2017 LBS provided me with access to this contract and provided me with soft copies of a pricing document which contained several (but not all) of the framework rates. However, on this occasion LBS have denied me access to the contract. I have therefore priced the works on the basis of the London Borough of Lambeth's Decent Homes contracts in order to provide an up to date estimate.
- 18 My estimate demonstrates that the cost per dwelling of refurbishment is between £45,090 and £65,670 according to the size of the property (**SM17**). This compares with a new build cost per dwelling of £296,680 based on the NHHT viability costs for the FDS site (**SM1** Table):

Item	Total Cost	Cost per Unit (815 Units)	Comments
Constructiøn	£ 145,694,204	£ 178,766	
Professional Fees & Section 106 Marketing & Letting Fees	£ 26,401,120	£ 32,394	
	£ 5,128,565	£ 6,293	
Finance		£ -	Finance fees not included as these may be required for refurbishment option, so omitted to give like for like comparison
Profit	£ 26,828,808	£ 32,919	
Inflation: 2015-2017	£ 37,741,454	£ 46,309	Allowance for inflation from March 2015 to December 2017; based on Spons tender price indices-18.5%
	£ 241,794,151	£ 296,680	

- 19 Based on the figures above it is evident that the cost of refurbishment is considerably cheaper than demolition. If LBS had provided the information I requested, a fully costed 30 year model could have been provided which would validate the above. This exercise should have been carried out prior to the 27th September 2005 decision. I would be happy to review LBS' figures of the comparison between refurbishment and demolition if they wish to provide them by way of rebuttal.
- 20 An exercise has also been carried out to demonstrate that elements of the existing estate could be retained within the new development. Details of this are included within document (SM18)

Simon Morrow. BSc, MRICS