

Community Wealth Building
Islington Town Hall, London N1 2UD

Report of: Una O'Halloran, Executive Member for Homes & Neighbourhoods

Meeting of: Executive

Date of meeting: 18 July 2024

Ward(s): Bunhill

Appendices 2, 5 and 6 to this report are exempt and not for publication under paragraph 3, Schedule 12A of the Local Government Act 1972, namely: Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Subject: Redevelopment of Finsbury Leisure Centre

1. Synopsis

- 1.1 The purpose of this paper is to update Executive on the Finsbury Leisure Centre & Residential (FLC&R) project. This paper provides analysis of the scheme's costs, viability, design, coordination, and risk since the last Executive paper at the conclusion of Stage 2 in summer 2023. The design has progressed significantly in detail, analysis and coordination during Stage 3, enabling an updated cost model at the conclusion of stage 3. Summary illustrations of the scheme are included in Appendix 1.
- 1.2 The project is currently concluding stage 3 design and is on track to deliver significant benefits, including 100 new council homes (of which 24 will be 3-bed homes and one 4-bed home), 98 sale homes to help pay for them, a brand new leisure centre, a new home for City Road Medical Practice, and transformed public spaces with improved greenery, planting, pedestrian, and cycle paths. Subject to planning consent and ongoing viability review, construction is planned to commence in summer 2025 and to complete in 2028.
- 1.3 The project has been through extensive design review and engagement with internal and external stakeholders, and a third public consultation commenced after the General Election.
- 1.4 The appointment of Wilmott Dixon in a Pre-Construction Services Agreement (PCSA) is starting to deliver its key aims to de-risk design, buildability, programme and cost. Detailed review of the project cost model at Stage 3 shows a good degree of co-ordination across the scheme,

offering a reasonable degree of construction cost certainty at this stage. The Employers Agent has provided a deliverables tracker which evidences their comprehensive cost and deliverability advice.

- 1.5 The outcome of the project's recent cost update and viability assessment is an increase of the total scheme costs estimate to £157.668m (including optimism bias), representing a cost increase from Stage 2 of £8,248m. The total cost includes a substantial £32.720 in contingency sums (26%) comprising inflation provision, general contingency based on a costed risk register, and an optimism bias (at 10%).
- 1.6 The revised project viability appraisal has incorporated increases in construction costs, fees and income compared with Stage 2 (summer 2023). The result, assuming optimism bias, is a reduced deficit in the HRA to £3.187m after an increased application of Right-to-Buy receipts, but an increase of £9.399m for the General Fund deficit, to £31.029m. Re-allocating existing capital funding from wider the General Fund capital programme would enable the project to be fully funded (to the current total including project contingency, inflation provision, and optimism bias). Total professional fees and PCSA costs have increased and are included within the total scheme costs. This is largely due to the implementation of the Building Safety Act (BSA) and new duties and obligations placed on all developers, but also a review of market rates and further detailed analysis. Total fees (excluding PCSA) represent 13% of construction costs. This is a reasonable industry rate. However, the new BSA requirements, whilst increasing Stage 4 fees, will provide greater cost certainty prior to entering contract. This should improve unforeseen expenditure and less reliance on contingency while in contract.
- 1.7 As a result of the council's revised allocations policy in relation to homeless households, proceeding with the FLCR project and the associated additional affordable housing supply could result in c.£8m of cost avoidance over the next 30 years, assuming the cost and demand for temporary accommodation (TA) remains constant over this period.
- 1.8 All key viability assumptions are set at prudent levels and any future improvements in sales values, reduction in interest rates, cost of materials or services, or increased Right to Buy receipts would have a positive impact on scheme viability. Revised sensitivity analysis is included in this paper to quantify the potential impact of any changes in core assumptions over the scheme's lifetime. The current cost model assumes £10.328m rental income from the new medical practice over 30 years, which will be used to fund development, but does not include revised terms for the new leisure facility. Given the renewed facilities, the council should seek to maximise income through its commercial negotiation with GLL.

2. Recommendations

Subject to ongoing gateway reports and financial viability assessments, to:

- 2.1 Note the increased project cost since Stage 2 and the project's risk mitigation strategy including the retention of £32.7m in contingency (26% of net scheme cost)
- 2.2 Approve proceeding to Stage 4 based on Stage 3 Design and Viability Assessment.
- 2.3 Approve £4.6m additional funding for consultant and direct fees and PCSA fees until the end of Stage 4, mainly to cover increased requirements under the Building Safety Act, noting total forecast fee spend to end of stage 4 is £14.55m.

- 2.4 Note the costed risk included in the cost model plus the addition of optimism bias to cover additional risk not fully mitigated within the costed risks.
- 2.5 Note that while the FLCR scheme is based on a low carbon, policy compliant design, the gas-powered EC1 Energy Centre will be removed from the FLC&R site, its future to be resolved as part of a separate strategy for a borough-wide heat network (including Bunhill) that will form a future paper to Executive, also noting the issues set out in section 3.8.
- 2.6 Note the intention to develop of a wellbeing offer for local residents to take advantage of the co-location of leisure and medical facilities.
- 2.7 Note the full General Fund deficit of £31.029m and Housing Revenue Account (HRA) deficit of £3.187m based on current total cost including all contingencies.
- 2.8 Approve re-allocation of £6.55m of General Fund capital programme borrowing to FLCR, as set out in para 3.7.20 to mitigate additional revenue pressures of up to £0.711m per annum.
- 2.9 Note the intention to engage with the GLA to assess any opportunities to secure additional grant to support the affordable housing within the scheme.
- 2.10 Note that additional Executive approval will be sought prior to award of a construction contract at RIBA Stage 5.

3. Background

3.1 Progress since Stage 2

3.1.1 Stage 3 activities

The project has been through extensive design review and engagement with internal and external stakeholders, and a third public consultation will commence after the General Election.

- 2 public engagements (July 2022, January 2024), with a third engagement planned for immediately after the General Election
- Targeted engagement with groups under-represented at public events.
- 3 Design Review Panels (2022, 2023, 2024)
- 5 Pre-Apps and numerous workshops with LBI Planners
- 2-member planning forums with a third planned prior to planning submission.
- 60+ meetings with LBI internal stakeholders
- Engagement with external stakeholders, including HSE, Sport England, Historic England, GLL, and NHS.
- Monthly Project Board meetings with senior representation
- Bi-monthly meetings with CADB Sub-Group

3.1.2 Design

The Stage 2 design gained agreement from the Project Board in autumn 2023 to proceed to Stage 3 design, on the basis that the design was largely acceptable and with some outstanding actions noted in the associated decision paper. On commencement of Stage 3 the design team immediately reviewed the outstanding actions and carried out several change orders which were enacted with a minor financial impact but significant design improvement. The change orders concerned the rationalisation of residential block ends, rationalisation of basement cycle park, and inclusion of leisure group change. Stage 3 work has continued to improve aspects of the design including daylight sunlight provision, elevation studies, and the landscaping of the public realm. This has been achieved through positive engagement with stakeholders including the pre application planning and workshop process. The Stage 3 programme included a public engagement and consultation process which provided better exposure and outreach of the

project and gleaned criticism and commentary. The public commentary and criticism concerned the height of the tower, the size of the new football pitches and spectator access to the proposed leisure centre. The consultation commencing following the General Election shows how the Council has addressed issues raised in the earlier consultation. Stage 3 work has proceeded to programme and fee budget including the change orders required as an outcome of Stage 2.

3.1.3 Commercial advice and support

Following Executive approval to appoint a Pre Construction Service Contractor, Wilmott Dixon Construction were appointed for the PCSA in Stages 3 and 4. This followed a detailed competitive tender reviewed by LBI Procurement. The PCSA advice has been critical in informing costs and deliverability matters, see section 3.2.3 below. Stage 3 work included an interim cost review and viability assessment. Significant cost movements were noted, and a value engineering exercise took place which focused on the cost movement areas. The items are listed in 3.2.3 below. Additional external legal support has also been appointed to the project, which has commenced work on tenancy contract and leases, planning legals and land appropriation. This commission was subject to competitive tender and is included within the project fee budget.

3.1.3 Bunhill Energy Centre 1 (EC1)

The energy centre is currently located in the south-west corner of the proposed project site. EC1 is built around a gas-powered combined heat and power engine and commenced service in 2012. It has since been combined with the EC2 Energy Centre (based on waste heat from London Underground) to form the Bunhill Heat Network, providing heat to neighbouring council homes and other buildings. The EC1 engine will have a remaining life expectancy of around 3-4 years by the time the FLCR schemes commences on site although its continuing operation increases the carbon intensity of the network.

Following a technical feasibility study and cost assessment, the Project Board confirmed that EC1 could not be accommodated within the future FLCR scheme. This decision was made on the basis of several factors: the loss of 24 homes by retaining/building around, an estimated cost of £7m to accommodate within the new scheme, and challenges in physically accommodating given new building safety regulations requiring additional stair cores in the leisure building. The decision recognised that work would need to be commissioned to determine the future of the EC1 engine as part of wider work on a borough district heating strategy. The FLCR project includes a sum of £100k to decommission and remove the energy centre from its current location. This position was validated by the project's Employer's Agent following market testing with specialist contractors.

The future of the EC1 energy centre will need to be resolved as part of a borough-wide district heating network strategy including the Bunhill heat network. Each option for the future strategy will come with a different cost envelope and will include a decision on the potential to expand the Bunhill Heat Network by capturing waste heat from the Lumen Data Centre (previously known as the 'GreenScies' project) that would require capital funding in the order of £30m. All options will be validated through the feasibility report and the future of the EC1 engine and the wider Bunhill and borough wide heat network will be subject to a separate business case and separate funding and investment strategy.

The wider FLC&R scheme design has its own resilient low carbon heating system based on air source heat pumps and will be capable of connecting with any available district heating network as required by the Local Plan and GLA policy.

3.1.4 Tenancies and Residential commercials

Critical to the business case of the project are the proposed tenancies and residential open market sales. Additional work has been completed during Stage 3. There are three proposed lease scenarios to cover these requirements. The medical centre requires a lease between the medical centre operator (Islington GP Federation) and LBI. The leisure centre operator (Greenwich Leisure Ltd) also requires a lease but also a modification to their contract with LBI. There are 98 apartments included in the residential open market sales, each of which require a lease between LBI and the private individual lessee. The three scenarios are outlined below.

- Medical centre – Stage 3 has provided further confirmation of the design with the future tenant. The design includes the shell and core and the fit-out requirements. In parallel, the Council has maintained a positive engagement with the future tenant (Islington GP Federation), who confirmed their NHS contract novation of the City Road practise in April 2024. At the same time the Islington GP Federation also secured a short lease with exit options on City Road, so they can decant to the new FLCR scheme as soon as it is ready. The Heads of Terms for the Islington GP Federation lease at FLCR has been drafted and negotiation of lease commenced June 2024.
- Leisure Centre - Stage 3 has provided further confirmation of the design with the future tenant, including a change order to include group change in the basement. A business case has been developed which considered the GLL contractual and lease position and the new leisure centre future cost and income predictions. The Council sought external legal advice on the GLL contract position and thereby the optimum lease scenario. An initial meeting with GLL to discuss contract is scheduled in June 2024. The Council will seek to negotiate an acceptable lease including a focus on anticipated income and sports and leisure user rates. The negotiations will also cover the loss of rental income from GLL to the Council during the period of closure, currently noted at £700k.
- Residential – Stage 3 has provided further optimisation of the tenancy mix, residential layouts, cores, concierge, and housing size mix for both council homes and sale homes. The concierge design, including welfare areas for caretaking staff, has been developed through coordination with internal stakeholders and commercial estate agents. The Council has also received commercial advice on the design of sale apartments to make them as attractive to potential buyers as possible. Rate of sale is important to cash-flow and viability and is a noted risk. See sections 3.6 and 4.1 below.

3.1.5 Wellbeing Offer

The FLCR scheme has always maintained an ambition to deliver a bold and ambitious wellbeing offer by taking advantage of the co-location of leisure and medical facilities. There are a number of potential opportunities to support residents and local communities to improve mental and physical wellbeing through access to innovative programmes jointly delivered by the Council and its partners. Early stage work commenced during Stage 3 and will be accelerated during Stage 4 to shape and confirm the wellbeing offer that will be delivered as part of the project.

3.2 Cost

- 3.2.1 The current cost of the project including 10% optimism bias is £157.668m. Although scheme costs have risen, the scheme can be fully funded through adopting the measures discussed throughout this report. The summary cost and income model is shown in Table 1 below.

Table 1: cost and income model

Type	Total project (£000)
Net Construction - Residential, plant, landscaping	63,419
Net Construction – Leisure, Medical, plant, landscaping	22,420
Contractor prelims, overhead & profit	16,640
PCSA fee	2,984
Consultants and Design Fees	13,302
Marketing, carbon offset, CIL and other Project costs, NB Team fees	6,183
Net scheme cost	124,948
Construction Inflation	7,014
Risks and contingency	13,317
Gross scheme cost	145,279
Optimism Bias	12,389
Total Cost	157,668
Sales Receipts	(76,420)
Less Cost of GF borrowing during construction	1,563
RTB 141 Receipts at 50%	(31,612)
GF Borrowing Against Medical Centre Rental Income	(4,971)
CIL/ s106 /other	(3,436)
Approved Borrowing (HRA and GF)	(33,394)
Additional (unfunded) borrowing (GF)	(9,399)
Total income	(157,668)

- 3.2.1 Total scheme costs have risen since August 2023 due to increases in forecast construction costs, professional fees and PCSA fees. The impact has meant an overall movement of £8.248m, of which circa £4.6m is fees and circa £2.5m is net construction and overheads, with another £1.179m allocated for optimism bias. See also Appendix 5 for the cost consultant cost plan.
- 3.2.2 The Project Team received an interim cost report in March 2024 for the Stage 3 design and worked at pace to clarify and mitigate construction cost and professional fee increases identified in that report, and to identify savings and opportunities to simplify the scheme where possible to avoid wholesale re-design adding programme delay costs with little benefit likely to be realised.
- 3.2.3 This work has resulted in £1.3m construction savings compared to the March 2024 interim cost report (though still an increase on Stage 2), resulting in an updated gross construction cost value at Stage 3 of £102.478m (excluding inflation, contingency and optimism bias), and £157.668m including inflation, contingency and optimism bias.
- 3.2.4 Income estimates are prudent with conservative sales values reflecting a recent reduction in residential market yields. Professional chartered surveyors Jones Lang Lasalle (JLL) valued the market sale homes at £76.4m in March 2024 (average £1,155 per square foot) compared to £78.5m in July 2023 (average £1,220 per square foot). However, Bunhill is an inner London location with excellent transport and employment links. Should sales values return to previous levels or increase further by the time the homes are being sold, this would have a further positive impact on the cost and income model.

3.3 Stage 3 Cost Mitigation

- 3.3.1 Change control in design Stage 3 has had a positive impact, with a modest net cost increase of £0.120m. Change control has been minimised in Stage 3 and included items raised at the end of design Stage 2 and instructed in design Stage 3 without programme delay. Some key decisions

include removal of L-shaped returns to residential buildings A and B, removal of gap between buildings B and C, addition of one residential sale unit and ensuite bathrooms to 12 sale units, addition of group change to the leisure centre, and re-development of leisure centre waste strategy to align with Ironmonger Row Baths.

3.3.2 The project has been working hard to gain cost certainty in Stage 3. A targeted review of cost movement areas was completed following the March 2024 interim cost plan. Due to positive, high levels of design coordination, this review identified some, but not significant savings in the final Stage 3 cost plan. From a programme and strategy perspective, this demonstrates strong coordination at this stage in the design process.

3.3.3 Key cost movements between Stage 2 and 3 comprise:

- **Concrete:** A rise in the cost of concrete between Stage 2 and 3 has had the greatest impact of circa £7m. Detailed market research analysis has confirmed the current market rate – a 30% industry wide increase. The project has focused on options to reduce volumes, savings could be circa £0.700m, subject to completion of a survey currently underway, including:
Floor Slabs have reduced in thickness to 225mm reducing costs by £0.248m.
Core Walls have reduced to 250mm from levels 16-20 of the residential, tapering the core, resulting in £0.085m cost saving.
Piles have reduced in diameter to 750mm from 900mm, subject to completion of the survey currently underway, resulting in a saving of £0.406m.
- **Blue roof** - construction detail was reviewed which confirmed the cost effectiveness of the current design proposals. The exercise has resulted in market evaluation and a saving of £0.080m.
- **Leisure Centre Elevations** - the construction detail was thoroughly reviewed in Stage 3 and simplified to confirm three basic elevation types that are not bespoke systems, using cost-efficient materials reviewed by external architects and suppliers. Two types are proprietary systems and have been thoroughly tested. The rate enables delivery of the specific design without the requirement for wholesale redesign to meet environmental performance and underpins the strength of the design with the planners, ensuring deliverability. At this stage it does not appear that there is any opportunity for a net saving.
- **Passivhaus** – A Passivhaus certified scheme has higher costs compared to a GLA compliant scheme. Reduction in specification and accreditation without re-design implications due to overheating and acoustics implications has resulted in circa £0.333m saving by delivering a GLA compliant project.
- **Services** – Stage 3 has been forecast using a RICS benchmarked £m² rate. The benchmarks have been reviewed and resulted in a saving of £0.114m
- **Inflation** – the rate of inflation has been reviewed by the Quantity Surveyor and based on the Building Cost Information Service (BCIS) construction data indices, has been reduced to 6.65% resulting in a reduction £0.183m positively impacting the overall capital cost. Previous reporting included 8% inflation in the net construction costs as part of a discussion with the PCSA partner to secure best value costs. This had the effect of elevating net construction costs on a comparative basis and is being shown as a separate line item.
- **Preliminaries** - the increase in preliminaries by £2.2m from Stage 2 to 3 has been reduced to £0.9m, based on a review by the PCSA and project cost consultants of various components

including site access, craning and operator welfare. The revised value is below an industry standard rate of 15%.

3.4 Professional and PCSA fees

- 3.4.1 The project requires external professional services to design and coordinate the project through the design stages and statutory requirements and guidance and help manage multiple risks. The process is lengthy and complex and requires a large team to deliver the required documentation. The project gained Executive approval to appoint professional services in January 2022. The project completed design Stage 2 in September 2023 and will have completed design Stage 3 upon submission of the planning application, planned for August 2024.
- 3.4.2 Stage 4 professional fees (excluding PCSA) have risen by £1.9m to £3.9m. Stage 4 PCSA fees have increased by £2.7m to £3.5m. The total fee increase for stage 4 is £4.6m. See Appendix 2.
- 3.4.3 Total fee budget for the project is £16.6m. Excluding PCSA the fee total is £13.3m which represents circa 13% of current construction costs of £102.5m (excluding contingency, inflation, and optimism bias on construction cost). This is a reasonable rate in relation to industry experience. The cost consultant has advised a mean of 17.3% across four comparable projects, though it is noted that RICS do not currently offer benchmark advice.
- 3.4.4 The finalised Stage 3 fees have increased by £300k from the last Executive report and have been funded from existing fee contingency. The main fee increase relates to Stage 4 fee increases, mainly due to requirements of the new Building Safety Act (BSA):
- Employers Agent and PCSA contractor advice in Stage 3 has indicated a requirement to provide fully coordinated design (previously Stage 5 work) for the Gateway 2 Building Safety Act submission at the end of Stage 4, prior to Stage 5 contractor appointment and start on site.
 - Delivering fully coordinated information will require a 30% increase in workload in Stage 4, which previously would have been Stage 5 type work. This additional activity will include detailed coordinated drawings and specification of the main contractor packages including, structures, lifts, services & elevations. This equates to a substantial package of work which will be delivered over several months.
 - New requirements are much more onerous than prior to the BSA, and FLCR will be one of the early schemes to go through this process. Advice on the requirements has been gained from the PCSA contractor and LBI Building Control, who are also a Building Safety Regulator under the new BSA system.
 - Stage 5 fees are subject to further review and will be confirmed in a future update to Executive. It is anticipated that the additional Stage 4 work will not need to be repeated in Stage 5 and therefore help reduce the cost of the contractor's Stage 5 offer to build. The PCSA contractor has sought a mechanism whereby work provided by specialists in Stage 4 can be carried over to Stage 5 main contract, again offering cost mitigation.
- 3.4.5 Whilst the project faces a significant increase in fees, it is important to note that the new BSA requirements are intended to provide greater cost certainty prior to entering contract. The Council's PCSA contractor advises that this should improve unforeseen expenditure and less reliance on contingency while in contract, based on experience from other schemes that have followed the new process.

3.5 PCSA Contractor Engagement

- 3.5.1 Following Executive approval to appoint a Pre- Construction Service contractor, Wilmott Dixon Construction were appointed for the PCSA in Stages 3 and 4. See appendix 6. Wilmott Dixon have been actively commenting and contributing to design and cost information in Stage 3, including clarifying implications, risks, and mitigation of new BSA processes.
- 3.5.1 They have been central to ensuring the project is cost-effective, buildable, and well-coordinated. Their expertise in cost estimation, constructability, value engineering, programming, and coordination with supply-chain stakeholders significantly enhances the overall quality and feasibility of the design, leading to a more successful construction phase and improved cost certainty. In addition, this period has been utilised to ensure that design handover is clear, concise, coordinated and scheduled and that BIM and other design approval process are set up for the efficient commencement of, and design within, Stage 4.
- 3.5.2 As the design develops during Stage 4 Wilmott Dixon will continuously review and refine the detailed design and look for ratification and value engineering opportunities while meeting quality standards. This will include working with sub-contractors to ratify the design to then be taken forward in Stage 5.
- 3.5.3 The council is under no obligation to continue with Wilmott Dixon into Stage 5 following receipt of their offer to build which will be received at the end of Stage 4. Whilst Stage 4 documentation that meets client, planning and commercial requirements in developed, the Council will continue to appraise best practice regarding risk mitigation. For instance, there is a significant commercial risk associated with securing sales for 98 homes and some form of risk share here may be advantageous.

3.6 Value for money

- 3.6.1 When compared with other similar projects being delivered in London, the following comparables demonstrate the scheme in current form presents reasonable value for money.

Table 2: Residential and leisure comparables

Schemes	£/m2	£/unit
Residential		
FLCR	£3,593/m2*	£574,951/unit
Westminster Council affordable homes delivery	-	£750k/unit average Range: £700k-£1,1140k/unit
High Road West, Haringey	3,577/m2	-
Gascoigne East 2, Barking and Dagenham	£3,621/m2	-
Kickstart sites, Newham	£3,835/m2	-
BeFirst Project	£4,398/m2	£414,500/unit
Westminster Council Project	£4,496/m2	£510,500/unit
Westminster Council Project	£4,206/m2	£525,000/unit
Battersea Church Road	£4,132/m2	£345,447/m2
Leisure		
FLCR	£4,698/m2	-

Grange Paddocks, Bishop Stortford	£3,908/m ²	-
Riverside ILC, Chelmsford	£4,999/m ²	-
Havering London Borough	£5,150/m ²	-
Herts East District Council	£5,880/m ²	-

*Benchmark excludes inflation and professional fees.

- 3.6.2 It is worth noting the existing Finsbury Leisure Centre was built more than 50 years ago and needs significant investment to ensure it is fit for purpose into the future. Mechanical and electrical plant is operating beyond its design life, the building is not energy efficient, and requires major renewal. If it were not replaced, considerable capital investment is likely to be required. Transformation of the leisure centre as part of this project will resolve all of these issues and provide a significant benefit for residents and leisure centre users who will have significantly improved facilities and a modern, accessible building that is energy efficient and fit for the future. There are also significant opportunities to develop a bold and ambitious wellbeing offer given the co-location of leisure and medical facilities.
- 3.6.3 The new medical centre is a key planning benefit and will be an important addition to local infrastructure, with no burden on Council budgets due to the use of S106/CIL and rental income to pay for the construction and operating costs.

3.7 Viability

- 3.7.1 The latest viability assessment indicates that £157.668m is required to deliver the project. This is an £8.248m adverse movement from the Stage 2 viability assessment in August 2023 (2024/25 Budget setting), with £6.940m increased costs in the General Fund, and £1.308m in the HRA.
- 3.7.2 This includes 10% Optimism Bias.
- 3.7.3 Appendix 3 provides a cost and funding comparison between Stage 2 and Stage 3.
- 3.7.4 The overall deficit in the HRA has reduced by £3.590m, to £3.187m, when compared with the stage 2 viability assessment, whereas the GF deficit has increased by £9.399m to £31.029m.
- 3.7.5 **Viability Assessment**
- 3.7.6 The recent LBI Viability Assessment has been impacted by the following:
- a) Increase in construction and overhead costs (£2.5m)
 - b) Increase in Stage 4 PCSA and professional fees (£4.6m)
 - c) Increased Optimism bias (£1.2m)
 - d) Decrease in current market residential sale values (£2.1m)
 - e) Increase in Right to Buy receipts (£7m)

Table 3 – HRA Viability Table

HRA Viability	2024/25 Budget Setting - Aug 23 Base Case + 10% OB (£'000)	Jun 24 Base Case + 10% OB (£'000)	Difference (£'000)
HRA Residential	111,200	113,840	2,640
HRA Plant (72%)	4,950	3,618	(1,332)
HRA Total Costs	116,150	117,458	1,308
HRA OMS Receipts	(78,530)	(76,420)	2,110
Less Cost of GF borrowing during construction	1,810	1,563	(247)
HRA Affordable Borrowing	(6,595)	(6,352)	243
RTB 141 Receipts	(24,608)	(31,612)	(7,004)
Other	(1,450)	(1,450)	0
HRA funding shortfall - Additional Borrowing Required	(6,777)	(3,187)	3,590
HRA Total Funding	(116,150)	(117,458)	(1,308)

HRA – Residential

- 3.7.7 The HRA element of the scheme has seen a £1.308m cost increase to £117.458m. This cost increase is largely due to the rising additional overheads, and professional fees. Professional fees have risen largely due to Building Safety Act requirements and overhead movements are linked to net construction costs.
- 3.7.8 The latest valuation completed by professional chartered surveyors Jones Lang Lasalle (JLL) has determined that market sales have reduced by £2.110m, with sales funding £76.4m of the HRA build. JLL are appointed to provide regular valuations of the homes for sale to support the viability assessment. This significant funding stream adds further risks to the project, as the council will borrow short term, with the expectation of capital receipts post completion. If there is a downturn in the housing market, this may impact sales values, or the potential to sell homes on the site. Conversely, any improvement in the currently comparatively deflated housing market will de-risk and improve the scheme.
- 3.7.9 This reduction in housing valuations has been offset by a £7.004m increased use of Right to Buy receipts. This is the result of RTB receipts now able to fund 50% of eligible Residential development expenditure, after the Chancellor's Spring 2024 Statement.
- 3.7.10 The Council should also engage with the GLA to identify if there are opportunities to secure grant to support delivery of the affordable homes within the scheme. Current funding rules prevent the council from utilising RTB receipts and grant on the same scheme. However, if the Council could secure grant delivering a higher per dwelling subsidy than achievable using RTB receipts, then there may be an opportunity to improve viability. Alternatively, swapping out any RTB receipts for GLA Grant would allow those receipts to be used on other affordable housing schemes.
- 3.7.11 The changed use of RtB receipts has aided the reduction in required unaffordable HRA borrowing to fund the deficit by £3.590m compared with the Stage 2 viability assessment.

3.7.12 The HRA will need £9.539m total borrowing, incurring a revenue charge of £0.530m per annum, of which £0.177m is the unaffordable element. All required HRA funding was factored into the 2024/25 HRA Business Plan, approved in February 2024. The additional revenue pressure for the HRA will be offset through adjustments in HRA revenue budgets, and a reduction in capital expenditure for the Major Works capital programme. There is a significant shortfall for the investment in existing properties within the latest HRA Business Plan. Although the FLC residential build is fundable, it will impact the funding available to invest in current council homes.

3.7.13 The HRA has also benefited from a reduction in estimated Public Works Loan Board (PWLB) loan interest rates (reduce from 6% to 5.56%). This will be reviewed quarterly. Any future improvements in sales values, reduction in interest rates, or increased Right to Buy receipts would have further positive impacts for the HRA.

3.7.14 General Fund viability

3.7.15 Increases in construction costs and professional fees between Stages 2 & 3 have increased General Fund costs by £6.940m. Gross construction costs have increased by £3.986m, including increases to the leisure centre façade, roof, and basement works, with an increase in the cost of concrete. Professional fees have risen largely due to Building Safety Act requirements (£1.273m) and overhead movements are linked to net construction costs (£0.998m), with additional optimism bias (£0.682m).

Table 4 - GF Funding Table

General Fund	2024/25 Budget Setting - Aug 23 Base Case + 10% OB (£'000)	Jun 24 Base Case + 10% OB (£'000)	Difference (£'000)
GF Leisure	25,046	32,300	7,254
GF Medical	6,329	6,516	187
GF Energy Centre (28%)	1,895	1,394	(501)
GF Total Costs	33,270	40,210	6,940
Original Borrowing	(2,225)	(2,225)	0
Medical Centre Borrowing	(4,740)	(4,971)	(231)
S106	(1,000)	(1,000)	0
CIL	(3,675)	(986)	2,689
GF funding shortfall - Additional Borrowing Required	(21,630)	(31,029)	(9,399)
Total GF Funding	(33,270)	(40,210)	(6,940)

3.7.16 The GF deficit has increased by £9.399m overall, from £21.630m in Summer 2023 to £31.029m. As shown in Table 4, the total borrowing requirement on the GF is £38.224m (£2.225 original borrowing + £4.971m Medical Centre + £31.029m deficit), with an on-going annual revenue cost of £2.890m (at 5.56% interest + 2% MRP), or £2.346m to fund the deficit. Additional borrowing required to fund the increased deficit of £9.399m will mean the GF will incur £0.711m additional revenue costs per annum if not additional capital allocation is provided.

3.7.17 Given the renewed facilities and levels of demand, the council will negotiate commercial rent terms for its future operation, any beneficial change could be used to reinvest back into the development.

3.7.18 For the scheme to be fully funded, the overspend will need to be reduced, or £0.711m of equivalent savings would need to be identified within GF revenue budgets. However, to avoid incurring additional revenue costs, the General Fund capital programme can mitigate the additional borrowing requirement through re-allocating £9.399m capital funding from other lower priority or no longer required General Fund projects to FLCR.

3.7.19 An opportunity to re-allocate £6.55m General Fund capital programme borrowing has already been identified through a separate review of the General Fund capital programme and is recommended in this paper. This re-allocation would cover part of the General Fund gap and would remain under review as the scheme progresses, and when future viability assessments are completed. The re-allocation includes an office improvement project at 29-33 Old Street which has been paused due to a strategic review of alternative options; a project at New River College Elthorne, which can be funded through the High Needs Provision Capital Allocation; and a budget for modernisation of libraries, which will no longer proceed due to value for money considerations and ongoing asset review. Reallocating these funded capital provisions would free up £0.495m of the pressure on GF budgets borne through additional borrowing required for this scheme. To meet the full additional funding shortfall of £9.339m, should the full optimism bias be required, another £2.849m of capital funding from existing capital schemes would need to be identified and made available for this project.

3.7.20 The re-allocated capital funding and stopped schemes requiring approval is set out in the below table:

Table 5: Re-allocated capital funding

	24-25 Budget (£m)	25-26 Budget (£m)	Total (£m)	Funded through Borrowing (£m)	Executive Decision Required
New River College Elthorne	3.373	0.000	3.373	(2.081)	Swap borrowing for High Needs Grant
Libraries - South Library	0.307	0.000	0.307	(0.307)	Stopping Scheme
Libraries Modernisation	0.098	0.069	0.167	(0.167)	Stopping Scheme
29-33 Old Street	4.000	0.000	4.000	(4.000)	Stopping Scheme
Total	7.778	0.069	7.847	(6.555)	

3.7.21 This and any further reallocation would only be required if all conservative estimates for GF inflation (£1.832m), contingency (£3.219m) and optimism bias (£3.196m) were realised.

3.7.22 Fees

3.7.23 Included within the viability modelling is a total of c.£16.6m of professional consultant and PCSA fees to take the project to RIBA Stage 6.

3.7.24 This includes known consultants' fees to Design Stage 3 estimates to RIBA Stage 4, totalling £14.55m to the end of stage 4. This is an increase of fees of £4.6m, which is mainly the result of new Building Safety Act requirements.

3.7.25 Potential Temporary Accommodation (TA) Benefits

3.7.26 From 2024/25 onwards, the Council will be allocating 45% of allocations to homeless cases. This is a 5% increase from the 2023/24 allocation. The Council's homelessness pressures are a growing issue, which reflects the national picture. The cost of an average TA placement is £5,948 per annum.

- 3.7.27 The allocation strategy will let local Council tenants in housing need access new homes built in Finsbury Leisure centre under the local lettings policy. 45% of the existing homes they vacate would then be let to homeless households which would provide the Council's GF with financial benefits through Temporary Accommodation cost avoidance.
- 3.7.28 This may result in £0.269m TA costs per annum or £8.057m over the next 30 years, assuming the cost and demand for TA remains constant over this period.
- 3.7.29 **Medical Centre** - The estimated rental incoming of £10.328m over 30 years will allow the Council to borrow c.£4.971m to pay for total construction costs £4.82m (excluding optimism bias) or £6.467m (including optimism bias). The remainder is funded through CIL and S106 receipts.
- 3.7.30 **Open Market Sales** – estimated to cost £56.352m to develop, with net receipts of £74.857m after allocating £1.563m to pay for the debt on additional GF borrowing during the build. This will fund the development of the units as well as a proportion of the plant (£3.618m) and the social rented units (£14.894m). As stated, negative movements in demand for houses in that part of the borough, and downwards movements in the value of freehold property sales would put the council at further financial strain. Conversely, any improvement in traditionally strong local housing markets would enhance scheme viability.

3.8 Risk

3.8.1 Costed Risk

- 3.8.2 The project costed risk register covers all risks and is reflected by the project contingency which currently stands at £13.3m. See Appendix 4. Project risk review covers and is not limited to design, planning, stakeholder, construction, and commercial risk.
- 3.8.3 It is expected that the Stage 4 design period will serve to mitigate some risk. As noted below.

- Design – Stage 4 detail design will be carried out by the PCSA contractor and reviewed by the current design team. This enables the Council to monitor the quality of the PCSA contractor proposals with respect to Employers Requirements and Planning requirements. It also provides for a design that the contractor knows that it can deliver at a price.
- Planning – Stage 3 has focused on developing a design that the pre application planning process has indicated would on balance generate a recommendation from the planning officers. Planning risk remains regarding the members, local users and heritage regarding the planning determination and committee response, such that the outcome cannot be predicted. Every effort has been made to address matters through extensive stakeholder and public engagement. Stage 4 will serve to act on any planning conditions and confirm that the materiality and design performance of the proposed facility match the design intent provided in the planning application. It should be noted that the new Building Safety Act falls under the responsibility of Planning to ensure its application. Right of Light are addressed through the planning process and the volume of complaints has been quantified and further mitigation will be sought through land appropriation as part of a separate recommendation to the Executive.
- Stakeholder – Stage 3 has seen a continuation of internal and external stakeholder engagement as a means of mitigating risk. For example, extensive local user engagement has taken place to present the scheme positively. Deliverability advice has been sought

form Building Control regarding the Building Safety Act and the likely conformity of the current design proposal i.e the inclusion of Stage 5 fully coordinated design information in Stage 4. Tree mitigation risk has relied on the internal advice of the LBI Arboriculture team and continues to be an ongoing task requiring further mitigation.

- Construction – Stage 3 PCSA work has already served to address construction deliverability risk. Stage 4 will further mitigate this risk by the PCSA's own design team developing the detail design to theirs and the council's satisfaction. Residual risks such as UKPN build proximity and Thames Water run off rates remain but will be addressed further in Stage 4.
- Commercial – the tenancy contract and lease workstream has developed during stage 3 such that negotiation has now commenced, with all lease agreements anticipated to be secured during Stage 4
- Medical Centre - matters regarding the Medical Centre owner and capacity to relocate are resolved, and negotiation of Heads of Terms and Agreement for Lease are commencing in earnest. The GP Practice and ICB have been heavily involved in the development of the brief and design, there were few modifications in stage 3 and no further changes are expected in Stage 4.
- Leisure Centre - GLL have also contributed to the brief and design and the team included a change order early in Stage 3 as an outcome of Stage 2. No further changes are expected in Stage 4. Negotiation of the contract and lease are now proceeding following legal advice. The Council also have some targets regarding user pricing strategy and accessibility and have a business case with advice on expectations regarding income and cost.
- Residential - sales income has been advised by commercial valuers and has included input into apartment design to improve attractiveness to the market and saleability. Risk remains regarding the rate of sale such that further mitigation work is required regarding the sales strategy and/or transfer of risk to the contractor.

3.8.4 Inflation

- 3.8.5 Inflation forms part of the Sensitivity Analysis later in this paper, and covers housing value, construction, contractor overheads and profit, supply chain costs, and loan rates. Regarding construction, the cost consultant advice on the construction market is key and supports the £8.9m figure included in the cost plan.
- 3.8.6 It is noted that whilst inflation is no longer accelerating it is expected to be replaced by falling demand in the construction industry. The reduction in private housing has released resources but there is a reduced pool of contractors bidding on larger construction projects maintaining pressure on prices for this work.
- 3.8.7 The growth in tender prices generally continues to ease falling from 8.6% in 1Q23 to 2.9% in 1Q24 and it is expected to fall to 1.6% in 4Q24. According to BCIS tender prices are likely to rise faster than costs from 3Q25, with tender prices predicted to rise by 17% over the next five years to 1Q2029.
- 3.8.8 The inflation provision in the cost plan has been reduced to reflect the recent adjustment of the indices by BCIS. A cautious approach is recommended although Stage 4 would be progressing at a convenient time in this cycle with pressure on sub-contract supply chains to secure their order books. To reflect this the cost consultant presented inflation within the net construction costs from discussion with the PCSA contractor, but for consistency in reporting has reverted to presentation of an allowance contributing to the gross cost.

3.8.9 Delay to the commencement of Stage 4 programme and any prolongation to the design Stage 3 or 4 programme will incur additional fees. It should also be noted that any programme delay may also be affected by inflationary pressure to the total project (including construction) cost dependent on ongoing sensitivity analysis.

3.8.10 **Optimism Bias (OB)**

The project has reconciled the project risk register and its mitigation measures against the Treasury *Supplementary Green Book Guidance*. With reference to Table 2 the project has established an OB figure of 10%, within a range of 4-24%. The most significant outstanding risk relates to business case matters which for the FLC&R project relates to securing the future tenancies. Negotiation of the Medical Centre and Leisure tenancies has commenced, and it is anticipated that informal acceptance of contract and lease matters will enable the OB to be reduced, though it is accepted that reduction to 4% will depend on the formal agreement. Other mitigation work carried out during Stage 4 will also help to reduce the OB, for instance, construction design detail by the PCSA contractor, particularly Stage 5 detail coordination work brought forward into Stage 4 design to meet the new Building Safety Act requirements.

3.8.11 **Bunhill Heat Network**

3.8.12 For the reasons set out earlier in this paper, it proposed that the EC1 gas-powered CHP engine is removed from its current location. The FLC&R project includes a sum of £100k to decommission and remove the energy centre from its current location. This position was validated by the project's Employer's Agent following market testing with specialist contractors.

3.8.13 The wider FLC&R scheme design has its own resilient low carbon heating system based on air source heat pumps and will be capable of connecting with any available district heating network as required by the Local Plan and GLA policy. So is not directly reliant on the future availability of the EC1 engine.

3.8.14 However, because of the decision to remove EC1 and until a longer term Bunhill Heat Network strategy is established and funding secured, the Council will need to satisfy itself that the Bunhill Heat Network can function without the EC1 engine. To support this work, the Council commissioned a report by Buro Happold into the various options around the Energy Centres and the Citigen-Bunhill Connection, which reported in May 2024. It concluded that the relocation of Energy Centre 1 was not viable but that running the heat network using Energy Centre 2 only would be viable with the localised gas boilers and communal heating systems already in place. The report found that when 250 City Road (currently planned as an offtaker) is excluded from the network, Energy Centre 2 can meet the hourly demand for 28% of the year, but when included, it can only meet the demand for 19% of the year. Without Energy Centre 1, the Bunhill Heat Network is more reliant on local gas boilers and communal heating systems the consequence of which should be noted as:

- It conflicts with Islington Council's carbon reduction targets, as the achieved carbon factor (0.208 kgCO₂e/kWh) is higher than the target (0.1 kgCO₂e/kWh).
- Gas boilers have a consistent high carbon emission factor over time, unlike electrified heating technologies.

- Gas boilers incur a standing charge that could be avoided if the network supplied all the heat.
- Annual maintenance and replacement of gas boilers add unnecessary costs.

Although these impacts need to be balanced against the planned removal of the gas-powered EC1 engine from the network as it reaches the end of its useful operational life in 2029. Moreover, changes to the carbon factor of grid electricity are expected to result in CHP systems generally producing greater carbon emissions than traditional gas fired boilers due to their lower efficiency.

- 3.8.15 If the Council wishes to consider a future expansion of the Bunhill Heat Network (which will need to be considered in detail outside of this project) a preliminary estimate suggests a capital cost range identified by the report of up to c£30m with a net cost over 40 years of up to £20m at today's prices. These costs are not currently budgeted.
- 3.8.16 In practice, running the Bunhill network without EC1 would likely mean that some existing off takers including council buildings would not receive heat from the network during peak periods and would need to rely on local heating solutions. In parallel, the Council needs to make a final decision on whether it connects the 250 City Road development to the network, which would have further implications for capacity as noted by the feasibility study.
- 3.8.17 Improvements to the network will help mitigate risk of a lower capacity network. Building Management System (BMS) works have now also been completed. Meter data is now being recorded and is being used for billing and to help optimise operation of the network. Large housing blocks are being configured for "load shedding" (if the network cannot supply sufficient heat to a building, it disconnects and uses its own boilers, making more heat available to the remaining buildings on the network). With grant funding secured from DESNZ, further optimisation of the network will be made during 2024. To include installation of expansion vessels and a pressurisation unit at EC2 to improve network resilience if the network runs with the EC2 energy centre only. A price-based control system will also be implemented, aimed at running the EC2 CHP engine and thus exporting electricity when electricity prices are high. The Council is also about to award a contract for a single/integrated network operational and management provider, simplifying and de-risking day to day operations.
- 3.8.18 A report on the shorter-term management of the Bunhill Heat Network will be presented to CMT in late July, setting out issues, risks, and a recommended way forward to ensure the network continues to function whilst a longer-term strategy is developed. The timing of this report will mean that the Executive has full understanding of the implications of removing the EC1 engine before it decides to move the FLCR project forward to Stage 5/construction.

3.9 Sensitivity ("what if") Analysis

3.9.1 Market Sales

- 3.9.2 The viability currently assumes that sales will take place at the end of the build phase (with the build phase estimated at 2 years). Interest incurred by the additional borrowing in the GF required throughout the build phase (£1.563m) has been deducted from sales income within the HRA viability.

- 3.9.3 The HRA viability assumes any temporary shortfall in funding throughout construction, will be supported through a drawdown of Revenue Contributions to capital outlay (RCCO). Once properties are sold, sales receipts will be recycled into the HRA capital programme, eventually swapping the use of RCCO for other schemes in the capital programme and replenishing the level of HRA reserves. This assumption was built into the latest approved HRA capital budget and is reflected within the HRA 30-year Business Plan.
- 3.9.4 Although the HRA Business Plan is currently in balance, there is always the risk that within the current financial climate, the HRA financial position will worsen, with reserves dropping to below the minimum reserve level (c. £30m, with reserves held at £62m as at 1st April 2024). This would require the HRA to short-term borrow in the interim, to plug the funding gap through construction. In this case, the HRA would incur additional short-term interest charges of £3.130m per year.
- 3.9.5 Delays in Market Sales**
- 3.9.6 Various factors can impact the appetite for sales in a local area. These include demographics, rates of interest impacting demand for mortgages, and the general health of the economy (GDP, employment). Although the UK and London has experienced a turbulent macro-economy in recent years, the recent reduction of CPI to 2.3% in April 2024, is expected to have a positive effect on the demand for mortgages in a historically strong sales location. Given its central location, with direct access to the city, a brand-new leisure centre and local amenities, the sales risk in the Old Street locality is determined by JLL to be significantly lower than other parts of the borough.
- 3.9.7 Notwithstanding this, as the Council has experienced issues in selling units within some New Build developments in recent times, there is always a risk that freehold sales within mixed tenure estates do not sell. Of the GF property sales (98 units), if half of these are delayed by 1 year due to reduced demand for property sales in the Finsbury area, then this would mean £38.1m delayed sales receipts. The financial modelling assumes £63.306m of total borrowing is required in the second year of build, of which 44% (based on habitable rooms) will support the GF build and 56%, the HRA. The resultant funding shortfall between the borrowing requirement and delayed sales by an extra year (£25.206m), may mean additional interest incurred in the GF of £0.846m. As noted above, the HRA viability assumes revenue contributions will pay for the delay in sales income, rather than PWLB borrowing, to avoid the additional interest charges. However, if this wasn't the case, the HRA would incur additional interest charges of £0.784m for a year.
- 3.9.8 Sales Value Risk**
- 3.9.9 In the 12 months to March 2024, property values in greater London saw an average reduction of 1.58%. The 12 months to June 2024 have seen values stabilise with 0% average change in property prices. However, with an unstable sales market, if values were to fall by 1.58% by the time the properties sell, this would result in a reduction of £1.207m in gross receipts. The increase in PWLB borrowing required to fund the HRA residential build, would incur an additional £0.067m per year in interest charges (or £2.014m over 30 years).
- 3.9.10 The current financial model assumes an average prudent sales value of £1,155 per square foot (/Sqft), based on a recent valuation by JLL. The FLCR scheme is being developed in a traditionally strong property market. The following table illustrates potential improvements in viability should sales values increase. For example, an average increase of £25 per square foot, would reduce the borrowing requirement in the HRA by £1.658m, and resultant annual interest charges by £0.092m. If the 98 sales were at the level of the maximum Islington sale (the Atlas

Building in September 2022), the reduced borrowing would be £14.279m, with £0.794m fewer borrowing costs per year.

Table 6: Benefits of incremental increases in sales values by square ft

FLC Valuation	£/sqft	Total Sales Receipts (£)	Reduced Borrowing requirement (£)	Reduced HRA Interest cost p.a (£)
FLC Valuation (Mar 24)	1,155	76,420,000	0	0
+£25/ sqft	1,180	78,078,719	(1,658,719)	(92,225)
+£50/ sqft	1,205	79,737,437	(3,317,437)	(184,450)
+£75/ sqft	1,230	81,396,156	(4,976,156)	(276,674)
+£100/ sqft	1,255	83,054,874	(6,634,874)	(368,899)
+£125/ sqft	1,280	84,713,593	(8,293,593)	(461,124)
+£150/ sqft	1,305	86,372,312	(9,952,312)	(553,349)
+£175/ sqft	1,330	88,031,030	(11,611,030)	(645,573)
+£200/ sqft	1,355	89,689,749	(13,269,749)	(737,798)
MAX achieved sales values reported by JLL in Bunhill (Atlas Building Sep 22)	1,367	90,698,733	(14,278,733)	(793,898)

3.9.11 Construction inflation Risk

3.9.12 Previous viability assessments included the impact of a 1-year delay to mid-point construction.

3.9.13 The financial impact of delays for various elements of the construction and sale are already included within the risk register. The additional risk of a further 1-year delay in construction commencing, or extension of core build to 3 years (currently modelled at 2), could result in an inflationary risk of 3.60%. This would imply an additional construction cost of £3.794m (£2.803m HRA, £0.991m GF).

3.9.14 The project has retained an inflation contingency of £7.014m.

PWLB (Interest Rate) Risk

3.9.15 In December 2021, the 50-year maturity PLWB interest rate used in internal financial models was c.2%. This rose to 5.91% by January 2024. The Council agreed to re-evaluate the rate applied to internal viability models each quarter, based on the average of rates over the previous quarter. This rate is current modelled at 5.56%. The below table presents the impact on viability if the interest rate on borrowing continues to decrease by increments of 25 basis points (bp). As the below table shows, the Residential scheme becomes viable if rates reduced to 4.17%.

Table 7: Public Works Loan Board (PWLB) borrowing rates and impact on viability.

PWLB 50-year Maturity Rate movement	HRA Prevailing Rate	HRA Deficit (unfunded borrowing) (£000)	HRA Additional Annual Rev Charge (£000)	GF Prevailing Rate (+2% MRP)	GF Deficit (unfunded borrowing) (£000)	GF Annual Rev Charge (£000)
0 (current LB Islington rate used for modelling)	5.56%	£3,187	£177	7.56%	£31,029	£2,346
-25bp	5.31%	£2,220	£118	7.31%	£30,889	£2,258
-50bp	5.06%	£2,220	£112	7.06%	£30,743	£2,170
-75bp	4.81%	£1,672	£80	6.81%	£30,591	£2,083
-100bp	4.56%	£1,072	£49	6.56%	£30,431	£1,996
-139bp (break even for HRA)	4.17%	£0	£0	6.17%	£30,167	£1,861

3.9.16 **Abortive Costs** – If the entire project stops at the end of Stage 3 (June 2024), total abortive costs will be £7.400m (£5.328m in the HRA, and £2.072m in the GF). This will be a direct charge to revenue, without the ability to capitalise costs.

4 Governance, Programme and Next Steps

4.1 The Project Governance is outlined as follows:

- 4.1.1 The Project forms part of the Community Wealth Building Directorate programme of works.
- 4.1.2 The Senior Responsible Officer is the Corporate Director of Community Wealth Directorate. The project has monthly non-executive project boards chaired by the Senior Responsible Officer.
- 4.4.4 The project has bi-monthly sub-CADB board meetings with the Bunhill Ward and Executive Councillors.
- 4.1.3 The project reports to the Capital Delivery board which is chaired by the CEO.
- 4.1.4 Updates are provided via internal governance processes through CMT and Joint Board reviews before presentation and seeking approval from the Executive, within required governance processes.

4.2 The project programme and next steps are outlined as follows:

Table 8: The project timetable below:

Item	Date	Comment
Design Stage 3	December 2023 – May 2024	
PCSA appointment	January 2023	Runs through stage 3 & 4
Public Engagement 3	July 2024	PE 3 is for information only and any local feedback will be through the planning application.
Planning application	Summer 2024	Subject to viability, budget acceptance, PC Feedback and Energy Centre/DHN decision
Planning determination	Late 2024	

Design stage 4	July 2024 – January 2025	Including viability assessment & Executive Report.
Contractor Award	Spring 2025	Pending end stage 4 Executive report.
Construction Residential	Summer 2025 – Spring 2028	Target 2.5 years with phased completion.
Construction Leisure	Summer 2025 – Summer 2027	Including 3 months fit out to handover.

5 Implications

5.1 Financial Implications

- 5.1.1 The current financial viability as of June 2024 is detailed in section 3.6.
- 5.1.2 The total scheme is now estimated to cost £157.668m including optimism bias, which is a £8.248m increase since the previous viability in August 2023. The current scheme funding deficit has grown by £5.808m to £34.215m since August 2023, after applying all available resources. This is after factoring in the positive impacts of additional RTB receipts to fund eligible HRA expenditure (£7.004m) and revising interest assumptions on borrowing from 6% to 5.56%.
- 5.1.3 The latest viability has been determined after a recent review of current costings, specifically in high-risk areas where the project has experienced most cost volatility over the last 12 month. That is, the cost of concrete, professional fees, the Leisure centre façade, and basement re-organisation.
- 5.1.4 The scheme continues to include significant levels of inflationary provision (£7.014m), risk mitigation (£13.317m) and 10% optimism bias (£12.389m), given current macro-economic volatility and sector-wide pressures.
- The HRA deficit of £3.187m is currently factored into the approved HRA 30-year Business Plan. However, the additional borrowing requirement is diverting potential funds from investing in existing council homes. Additionally, GF borrowing of £9.399m is required, which is currently not budgeted for, incurring £0.711m annual revenue costs. This can only be done through either:
- Identifying less expensive alternatives to existing production specifications and materials, across the GF programme.
 - Identify alternative funding sources such as through the leisure centre revenue.
 - Finding mitigations through reducing other front-line services across the GF and HRA to the detriment of residents.
 - Identifying other approved GF capital schemes which can be de-prioritised, with budget allocated to this scheme.
- 5.1.5 As noted in section 3.6.19, £6.550m has already been identified and could potentially be re-allocated to support this scheme, if approved. Additional capital programme reviews will need to take place to identify the balance of funding.
- 5.1.6 Furthermore, section 2.6.23 identifies a non-cashable, but cost-avoiding opportunity in the GF if this scheme goes ahead. There is the potential for £0.269m Temporary Accommodation cost-avoidance through allocating 45 of the scheme's 100 homes to homeless households.
- 5.1.7 As noted in section 3.1.4, the Council is preparing for negotiations around the lease surrender of the existing leisure centre. A commercial negotiation with GLL will take place to determine the level of lost rent during the development. This is likely to result in an added pressure to the

council of £0.700m. This lost income to the Council's Greenspace and Leisure service has not been included in the financial viability.

- 5.1.8 The report also notes the cost of replacing the EC1 Energy Centre heat output through an expansion of the Bunhill Heat Network, which will be considered in detail outside of this project. A preliminary estimate suggests a capital cost range identified by the report of up to c£30m with a net cost over 40 years of up to £20m at today's prices.

5.2 Legal Implications

- 5.2.1 This report is seeking authority to spend up to £14.55m for fees and Pre-Construction Services Agreement (PCSA) costs up to the end of RIBA Design Stage 4 including amounts already spent. This represents an increase of £4.6m including consultant and direct fees and PCSA fees. Approval will be subject to the Financial Implications in paragraph 4.1.
- 5.2.2 The council has entered a JCT PCSA with Willmott Dixon Construction Limited dated 7th May 2024 for RIBA Stage 3 and Stage 4 services. The PCSA was procured via a mini competition under the council's New Build Framework in compliance with the Public Contracts Regulations 2015 and the council's Procurement Rules. Approval to proceed to RIBA Stage 4 under the PCSA is being sought in this report. If the scheme is to proceed and the recommendations in this report are approved the PSCA contract is already in place for RIBA Stage 4.
- 5.2.3 Further prior Executive approval will be required should the scheme proceed to RIBA Stage 5 (Construction).
- 5.2.4 Executive can approve the recommendations in this report provided they are satisfied with the content of the report and that the recommendations represent best value for the Council.

5.3 Environmental Implications and contribution to achieving a net zero carbon Islington by 2030

- 5.3.1 The full Environmental Implications associated with the project design and construction will be reported on the completion of design Stages 1-4 and the Executive decision to move to Stage 5 (construction).
- 5.3.2 Stage 3 design has considered the environmental performance of the residential, leisure and medical buildings in conformity with guidance and policy. This has included modelling methods to demonstrate deliverable expectations which will be further validated in Stage 4. Stage 3 design has also developed public realm environmental policy and guidance matters. For instance, Biodiversity Net Gain and Urban Greening Factor have been progressed for the planning application as has the Energy Strategy, Green Performance Plan, Sustainable Design & Construction Statement, Part O Report and the Whole Life Carbon Assessment.
- 5.3.3 The design and proposed construction is to GLA compliance (Be lean, Be green); Breeam Outstanding; product environmental conformity; circular economy demonstration, would have positive Environmental Implications reducing carbon emissions and resource use. A decision not to do so, would have negative Environmental Implications and would contrast with the Council's Decarbonising New Homes Strategy.

- 5.3.4 The environmental impact of the project is covered by a range of reports included within the planning application and demonstrate how the project conforms to all relevant planning and environment policy requirements and guidance.
- 5.3.5 The proposal to design and construct a 20-storey tower would have some positive Environmental Implications in contrast to an 18-storey tower, with the provision of additional energy and resource efficient homes. There would be on average a reduction in energy and resource use per unit, associated with a taller tower.
- 5.3.6 The FLC&R project is developed with its own resilient energy networks utilising an ambient loop, which is itself lower carbon than the EC1 supplied Bunhill district heat network that it can also connect to.
- 5.3.7 Relocation of EC1 will be considered in detail in a separate report. At this stage it is noted:
- Non-replacement of EC1 may affect the carbon emissions compared to the status quo in the short term, as connected sites will be more dependent on gas boilers (though this micro technology can be improved). There may also be a loss of potential future emission reductions through a reduction in the network's capability to connect new sites. This would impact on borough wide ambitions to reduce carbon emissions through the expansion of district heating, however, this is all subject to ongoing alternate energy source studies to replace EC1 noted below.
 - It should be noted that EC1 will need replaced in the near term regardless of the FLC&R development, with respect to its lifespan and also its green performance i.e. the gas turbine is no longer considered a low carbon energy source to the DHN.
 - Relocation of the energy centre to another site or the construction of a new substation to connect Bunhill DHN to Citigen will have environmental implications related to the construction of the new site but would mitigate some wasted resource and embodied carbon.

5.4 Equalities Impact Assessment

- 5.3.8 The Council must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment and victimisation, and to advance equality of opportunity, and foster good relations, between those who share a relevant protected characteristic and those who do not share it (section 149 Equality Act 2010). The council has a duty to have due regard to the need to remove or minimise disadvantages, take steps to meet needs, in particular steps to take account of disabled persons' disabilities, and encourage people to participate in public life. The council must have due regard to the need to tackle prejudice and promote understanding.
- 5.3.9 Through discussion with the Equalities team, a Full Equalities Impact Assessment has been prepared and is included in Appendix 7.

6. Conclusion and reasons for recommendations

- 6.1 The recommendations will enable the proposed design programme, to proceed until the end of design Stage 4 with no further delay and associated costs that may incur from delay. The project remains on track to deliver significant benefits, subject to planning consent and ongoing viability.
- 6.2 It is essential that the design stages are fully funded stage by stage, and subject to viability assessment at the end of each stage. The recommendations ensure this assurance and certainty is provided.

6.3 The PCSA is parallel to consultancy fee activities but provides risk mitigation and additional cost certainty of the construction cost of the project by early non-binding engagement of contractor services. The service runs up until the end of Stage 4, when an executive paper would be prepared advising the contractual construction cost (actual build) of the project.

Appendices:

- Appendix 1 FLC&R CGIs
- Appendix 2 Exempt - Pick Everard – fee review recommendation
- Appendix 3 LBI Finance Viability assessment
- Appendix 4 Costed risk register
- Appendix 5 Exempt - Cost plan
- Appendix 6 Exempt - PCSA decision report
- Appendix 7 Full Equalities Impact Assessment

Final report clearance:

Authorised by: Executive Member for Homes and Neighbourhoods

Date: 4 July 2024

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