

Appendix F – Initial Risk Matrix

Risk	Likelihood	Financial Impact	Mitigation
<p>Planning consent not achieved by end of October 2012.</p>	<p>Medium/High</p>	<p>Potentially longer programme and cashflow meaning impact on HiP could be over longer period. This would result in delay in LL reimbursing LBS. Additional management and maintenance costs could be incurred beyond those currently assumed.</p>	<p>Work with Lend Lease and Planning Officers to manage planning application process and ensure all information necessary to support proposals is available including robust environmental statement addressing demolition impacts and setting out mitigation measures.. Reduce likelihood of objections by carrying out extensive pre application consultation including consultation with residents likely to be impacted by demolition such as at Wansey Street. Any increased project costs arising from this risk would be reimbursed by Lend Lease and are subject to TPI.</p>
<p>Objectors seek a JR in respect of the planning decision preventing implementation of the scheme.</p>	<p>Medium/Low</p>	<p>As above</p>	<p>As above</p>
<p>Greater quantities of asbestos are found increasing costs.</p>	<p>Low</p>	<p>Increased Project Budget</p>	<p>The business case base budget has been informed by phase 1 demolition which is of the same construction type and therefore this risk is considered to be low. Pre demolition intrusive surveys will however be undertaken to test assumptions and ensure robust technical studies are in place prior to letting of contract. A 10% contingency sum is included in the business case budget to manage this risk. Any increased project costs arising from this risk would be reimbursed by Lend Lease and are subject to TPI.</p>

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<p>Utility disconnections take longer to complete leading to increased costs and extension of the programme.</p>	<p>Medium/Low</p>	<p>Increased project budget. Potentially longer programme and cashflow if the disconnection process takes longer than is currently anticipated in the base programme.</p>	<p>Pre demolition surveys to identify utilities will be undertaken. Lend Lease will have responsibility for coordinating disconnections with utility companies and removal of meters from within properties. Following experience from phase 1 demolition the time involved in these processes can be better assessed and the base programme reflects this experience. Any increased project costs arising from this risk would be reimbursed by Lend Lease and are subject to TPI.</p>
<p>Increased inflation within the construction sector.</p>	<p>Medium</p>	<p>Increased project budget.</p>	<p>Lend Lease will monitor tender prices and DJD who independently monitor the project on behalf of the council will comment on this evidence and will be involved in overseeing the procurement process to ensure the council secures best value. The demolition contract will in any case be subject to competitive tender to ensure best value for the council. Pre demolition surveys will be undertaken to ensure robust evidence base as to site conditions is available at point contract is let. Any increased project costs arising from this risk would be reimbursed by Lend Lease and are subject to TPI.</p>
<p>Contamination Survey reveals higher than anticipated levels of pollution requiring more</p>	<p>Medium/low</p>	<p>Increased project budget.</p>	<p>The base programme and budget in the business case includes a requirement to carry out a survey to define the extent of this issue. The base budget</p>

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expensive remediation works.			includes 10% contingency sum to address this risk. Any increased project costs arising from this risk would be reimbursed by Lend Lease and are subject to TPI.
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<p>Unexploded ordnance or WW2 air raid shelters found on site.</p>	<p>Low</p>	<p>Increased project budget</p>	<p>As above</p>
<p>Vacant Possession of the site is not achieved in accordance with the base programme</p>	<p>Medium/high</p>	<p>Potentially longer programme and cashflow meaning impact on HiP could be over longer period. This would result in delay in LL reimbursing LBS. Additional management and maintenance costs could be incurred beyond those currently assumed.</p>	<p>Offers have been made to the remaining leaseholders on the site. A compulsory purchase order will be issued in July and it is expected that an inquiry could be held by the end of the year with a formal decision by spring 2013. This programme is consistent with the base programme. The council and Crossway's Church are working on a replacement scheme on a council owned site and this process is aligned with the demolition programme. If this is delayed then there is flexibility to omit this part of the site from the demolition programme.</p>
<p>Lend Lease are unable to proceed to unconditionally and therefore the council's costs arising from the demolition are not reimbursed.</p>	<p>Low</p>	<p>Impact on HiP in medium term.</p>	<p>Lend Lease have submitted an outline planning application for the site and are on track to achieve unconditionality. The council continue to work with LL to achieve all condition precedents within the RA including vacant possession. In the event that unconditionality is not achieved the council would be in possession of a 23 acre cleared site with the benefit of planning permission. Cost recovery for the demolition could then be achieved through the disposal of the site.</p>

Drivers Jonas Deloitte.

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21 June 2012

Dear Jon

E&C - Heygate Estate Demolition Business Case

Drivers Jonas Deloitte (DJD) act on London Borough of Southwark's (LB Southwark) behalf as project monitor for the Elephant and Castle scheme. This letter sets out below both DJD's monitoring role and our comments on the business case which supports LB Southwark funding the demolition of the Heygate Estate.

Our Role

DJD's role is primarily focused on monitoring the viability of the scheme but also includes an element of cost monitoring.

As part of our cost monitoring we have set up a monthly monitoring system with Lend Lease (LL) which allows us to review monthly budget changes for the scheme as a whole. Where significant changes are identified then these are discussed and LL are required to justify any changes. A monthly report is issued to LB Southwark which outlines cost changes and justifications.

As an addition to our role we have also agreed that we will monitor any procurement over £100k. This is to ensure that LL are procuring on the basis of 'best value' and that they are using robust procurement methods. As a first stage we have reviewed, with Lend Lease, the procurement of the Phase 1 Architect and can report, on the basis of what we have been shown, that LL processes are robust.

Heygate Estate Demolition Business Case

We have reviewed the proposal regarding the demolition of the Heygate Estate and we are of the opinion that LB Southwark's conclusion to fund the demolition of the Heygate Estate is entirely sensible. We would anticipate that the cost to Lend Lease of obtaining finance from the market could exceed the cost

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of the council providing funding for the demolition directly.

In order to ensure a robust process we would strongly recommend that the demolition is tendered and we welcome the fact that Lend Lease will seek 5 quotes. In line with best practice these quotes will be sought 'at arms length' from contractors with no connection to Lend Lease. Under the terms of the variations to the Regeneration Agreement that are currently being discussed, LL will be required to refund the costs of demolition, subject to conditions, at a later date, expected to be 2015/2016. If these conditions are not met the Council will not be reimbursed and this is clearly a risk, however, in the worst case LB Southwark will be left with a cleared site which is ripe for redevelopment. Presumably the Council will also benefit from a reduction in site security costs which add further weight to the case for demolition.

An additional benefit is likely to be a reduced interest cost on the demolition which would have been accrued in the development account. In principle that should have a positive impact on LB Southwark's overage position.

We have previously commented on the business case for the demolition of the Heygate Estate, see below, and our view remains the same:

'It is important to note, as costs are reasonably incurred the councils land value will improve as further certainty is obtained around the development and town planning. The early demolition of the Heygate Estate is an example of the sort of investment that will benefit the scheme and its viability. Ultimately, increased certainty will benefit the council whether Lend Lease progress with the development or not.'

We have reviewed the risk assessment it is considered to be a reasonable assessment of the project risks at this stage in the project process. In terms of mitigation we note that the base budget includes for a 10% contingency and we consider this is appropriate at this stage of a project given the inherent risks in a project of this type.

As part of our role DJD will monitor the procurement of the demolition contractor for the Heygate Estate and report on the process to LB Southwark. We will discuss the detail on how this process should be monitored over the coming weeks.

Conclusion

On the basis of the information provided to us we believe that LB Southwark's decision to fund the demolition of the Heygate Estate is a logical step. DJD will monitor and report on the procurement and this should give LB Southwark comfort that their money will be spent and used appropriately by LL.

If you have any queries regarding any of the above please do not hesitate to contact me.

Yours faithfully

Daniel Lovatt
Deloitte LLP (trading as Drivers Jonas Deloitte)