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**Subject** Note on Business Case for LB Enfield Cabinet Paper

**Date** 10 July 2018

**Job No/Ref**

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## 1 Introduction

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The Council is preparing a business case to support its application to MHCLG for £120m from the Housing Infrastructure Fund (HIF). This follows the successful ‘expression of interest’ submitted in September 2017, and will provide more detail on the Meridian Water programme.

The business case is being co-developed by the Council, MHCLG and the GLA, with technical support provided by Arup. It must be submitted to MHCLG by 10 September 2018, for an expected funding decision from November 2018. It will be shared in draft with the GLA at the end of July – followed by a further 6-week period of co-development prior to GLA submission to MHCLG.

The business case is structured around HM Treasury’s standard five-case model. This includes five sections: strategic, economic, commercial, financial and management. In addition, there are sections on the project and options appraisal. A summary of each section’s purpose and content is provided below.

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## 2 The Project

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This will provide detail on the scheme, including the scope of infrastructure works and proposed development areas, as set out in sections 3.2 and 3.4 of this report.

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## 3 Strategic Case

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This will set out the Council’s long-term vision for the area, framed around local and national policy objectives. It will also demonstrate support for the project from local partners and the community.

There will be a focus from MHCLG on the ‘market failure’. That is, why can’t the scheme be delivered by the private sector without public sector intervention? For Meridian Water, this will be framed in terms of three key interventions: development of a coherent masterplan, acquisition of the majority of developable land, and delivery of strategic infrastructure. For each there is a supporting rationale:

- **Masterplan:** There is little private appetite for development in the area given the significant challenges, but it is close to other areas of high housing need and offers a unique opportunity for planned growth close to central London. The full growth potential and highest quality development will be achieved through the development of a comprehensive and strategic (as opposed to piecemeal) masterplan.
- **Land assembly:** The land ownership was previously fragmented, meaning that there was no incentive for any one party to provide the upfront investment necessary to enable development. The Council has now acquired most of the developable land.

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- **Infrastructure:** The scheme is characterised by brownfield sites with poor access by road and rail. In order to unlock market interest (and achieve potential densities) there is a requirement to deliver strategic infrastructure and remediation to unlock housing at scale and pace.

Without these interventions, it is expected that there would be no housing development at all (besides that already being delivered in phase 1 due to previous interventions).

The Strategic Case will also describe the Council and GLA's long-term vision for the area. This will cover:

- **The Edmonton Leaside Area Action Plan:** This sets out the vision for Meridian Water as a new urban neighbourhood, and how it will support Enfield's need for a diverse mix of housing, including affordable housing.
- **The GLA's Lee Valley Opportunity Area:** Meridian Water is located at the heart of an opportunity area which is expected to deliver a total of 21,000 homes and 13,000 jobs. The draft new London Plan highlights the four-trains-per-hour service as a crucial enabler of this growth, whilst in the longer-term Crossrail 2 will unlock the Lee Valley's full potential.
- **The London-Stansted-Cambridge Corridor (LSCC):** Meridian Water also sits within the LSCC, and has been identified as a strategic site with unique potential to provide high-quality and competitive workplaces to meet the needs of existing and future technology-based and life sciences industries.

## 4 Options Appraisal

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The business case must set out all the options that have been considered, to demonstrate that the preferred option represents the best value for money. This must include a 'do-nothing' option, which is a reference point against which other options are compared, and an option with reduced HIF funding.

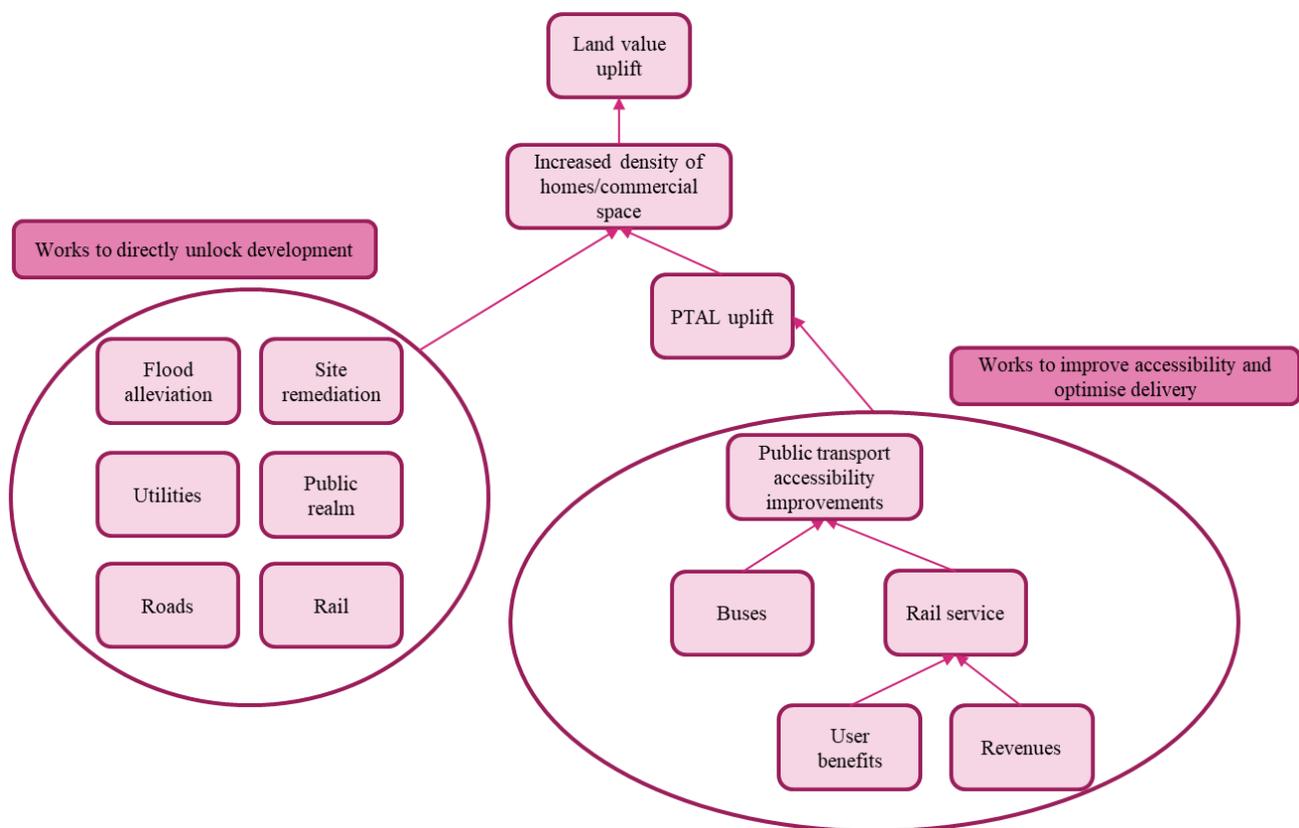
These three options have been constructed by considering options for different elements of the scheme, including:

- **Procurement options:** The Council has extensively explored delivering the infrastructure works through a master developer approach, rather than funded up-front by the public sector, as set out in section 4 of this report.
- **Roads and remediation options:** The Council considered the potential to deliver only the strategic infrastructure for early phases up-front, with future requirements funded from alternative sources. This is less efficient due to the inter-connected nature of the phases, and carries significant extra risk that the homes would be delivered more slowly, or not at all.
- **Rail options:** Different rail options have been considered, from minor infrastructure improvements to achieve a limited 4tph shuttle service, through to four-tracking to achieve a resilient 6tph service.
- **Masterplan options:** A wide range of masterplan options have been considered by the design team, with the preferred masterplan being chosen to optimise housing delivery and quality of place.

## 5 Economic Case

This will assess the value for money of the proposed investment. It will look in detail at the full HIF (preferred) option, the reduced HIF option, and the ‘do-nothing’ option. Arup has been appointed to develop an economic model which will quantify the costs and benefits to society of each of these three options.

The benefits are primarily captured through ‘land value uplift’ – the change in land value that is achieved through a change in land use (in this case from industrial to residential). This in turn is driven by works that improve accessibility and other works that directly unlock development, as illustrated below.



The land value takes into account development costs and profits, drawing on the same information that is being used to assess the financial viability of the scheme. However, as the economic model is assessing benefits to society rather than financial viability, certain assumptions are different. For example, affordable housing is valued at full market value rather than the rate at which it will actually be sold.

All benefits and costs will be discounted to 2018 values. They can then be compared to give a Net Present Public Value (NPPV) and Benefit Cost Ratio (BCR), as set out in section 3.3 of this report. This is important to demonstrate that the scheme offers good value for public money.

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## 6 Commercial Case

This section will demonstrate an effective route to delivery. It will outline the GLA and the Council's understanding of the local market, including analysis of market absorption and sales rates, average house prices, comparable schemes, and local demographics. It will also show that the Council has a credible procurement strategy. As set out in section 3.5 of this report, STACE has been appointed to support soft market engagement with contractors and help inform the approach to contractor procurement.

## 7 Financial Case

This will set out the project's cost, funding sources and timelines. It will consider both HIF funding and other funding needed to deliver the houses, as well as options for recovering the funding. For Meridian Water, this will be achieved by increasing the land values of Council-owned land, which can then be re-invested into the scheme.

Lambert Smith Hampton has been appointed to develop a financial model that will inform this section of the business case.

## 8 Management Case

This will outline the Council's proposed plan for delivering the infrastructure and homes, including how it will work with key delivery partners and how risk will be managed. It will provide more detail on governance and resource arrangements, as set out in section 3.6 of this report, and will explain the project management structure as illustrated in the diagram below.

