

Report for: Cabinet

Date of Meeting:	16 February 2023
Subject:	Milton Road
Key Decision:	Yes - the scheme will involve expenditure in excess of £1m
Responsible Officer:	Dipti Patel - Corporate Director - Place
Portfolio Holder:	Cllr Marilyn Ashton - Deputy Leader and Portfolio Holder for Planning and Regeneration Cllr David Ashton - Portfolio Holder for Finance and Human Resources Cllr Mina Parmar – Portfolio Holder for Housing
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	Marlborough, Greenhill
Enclosures:	None

Section 1 – Summary and Recommendations

This report sets out the final cost position for the Milton Road project and seeks approval to proceed.

Recommendations:

Cabinet is requested to:

1. Agree that the construction of the Milton Road scheme through the Harrow Strategic Development Partnership (HSDP) should commence.
2. Approve the final cost position and risk sharing approach for the development of the scheme through the HSDP.
3. Note that an amended planning application reducing the height of the scheme to a maximum six stories will be made by the HSDP.

Reason: (for recommendations) The recommendations enable the Milton Road scheme to progress delivering 36 units of affordable housing including wheelchair homes, housing for rent and shared ownership properties.

Section 2 – Report

Introductory paragraph

1.1 The provision of high-quality new housing will support those in housing need by providing safe affordable housing for the use of local residents through rental or shared ownership. This will contribute to all of the Council's priorities:

- A Council that puts residents first
- A Borough that is clean and safe
- A place where those in need are supported

2. Options considered

A. *Do nothing*

This would leave a vacant site with the demolished Civic 9 and a development ready site. It would risk the loss of sunk costs amounting to approximately £2m, and the repayment of grant of some £1.87m. This is not a practical option

B. *Retender to a Tier 2 contractor*

It is possible that via a competitive tender a tier two contractor would give a cheaper construction price but this option has various drawbacks.

C. These include the following considerations:

2.1 It would take time. It is estimated that it would be summer or early autumn before a contractor was procured, governance completed, and contracts entered, leading to a start on site very late in the year as

outlined below. Such delay would increase the risk of the GLA seeking to reclaim grant and further fees would be required for managing the tender process.

- 2.2 Possible gains in tender prices may be lost by the increased costs that may result from the new Building Regulations due in force in June which are estimated to incur 10% cost increases.
- 2.3 Circa £2m of precontract and design works has been sunk into this development which would be at risk in this scenario.
- 2.4 Given the current situation with regard to inflation there is no guarantee that cheaper prices would be achieved, and there is a not inconsequential risk that further delay and additional fees could have been incurred for no benefit in the tender price.
- 2.5 *Cease the current development and re design or commission the existing scheme alongside the wider Poets Corner scheme.*
- 2.6 It is likely that this would mean no further work on site until 2025, given the current position with the Poets Development and time required to bring the scheme to development. Under the grant conditions this would most likely trigger a requirement to repay the grant The council could also suffer reputational damage with the GLA.

D. *Discussions with the GLA*

It is possible that a pause could be negotiated while retendering took place. It seems unlikely that this could be extended to the point where the Milton Road scheme was subsumed into the wider Poets scheme.

E. *Dispose of the site*

- 2.7 Consideration has been given to disposing of the site for which it is possible that there might be a market, although the valuation and possible proceeds from the site remain uncertain. Profits from disposal would need to be reduced by the sunk costs and the loss of grant. Estimated valuations suggest that there is unlikely to be any residual profit after defraying these costs and clearly this would also involve the loss of much needed affordable housing.
- 2.8 It would be most unwise to cede control of a site immediately adjacent to one of the Council and the partnerships' flagship developments given the risk of inappropriate uses or planning applications incompatible with the major scheme or with the current proposed massing and height.

F. *Constructing the Milton Road scheme through the HSDP*

This is the preferred option for the reasons set out in the rest of this report.

3. Background

- 3.1 Milton Road was incorporated into the HSDP by Cabinet in November 2021 and planning consent was subsequently granted for a seven - storey building comprising 29 flats and 10 associated neighbouring town houses.
- 3.2 The HSDP initially became involved in Milton Road when it became difficult to design the Milton Road scheme in isolation from the design of the wider Poets Corner scheme, and to ensure appropriately aligned architects. After that initial design process, carried out under a Pre - Contract Services Agreement, in order to secure grant, it was important to keep moving forward and secure a meaningful start on site on or before 31 March 2022.
- 3.3 To secure grant and start demolition on site the Cabinet approved the report as noted above, and the necessary legal documentation was agreed. Milton Road has been progressed through a Community Works Agreement (CWA), the means by which the Council commissions works from the HSDP and directly pays for works at cost.
- 3.4 An estimated build cost sum of £13m was agreed at the time of entering into the CWA based on the then cost plan developed by Wates Construction who will carry out the building works under the exclusivity provisions of the HSDP. Contingency was included, resulting in the estimated total scheme costs of £14.9m and the scheme was financially viable.
- 3.5 At the request of the incoming administration a review of all the HSDP schemes was carried out.
- 3.6 The review considered the height of the flatted building adjacent to Station Road and as a result has removed one story with a reduction of three units. No changes were made to the tenure mix as there was no financial viability in doing so.
- 3.7 The scheme now comprises a 100% affordable housing scheme of 36 homes of which 10 are houses for rent, 2 are wheelchair flats and 24 are shared ownership flats. Civic 9 has been demolished and the site is largely development ready. A new application varying the existing planning consent is being submitted.
- 3.8 The changes to Milton Road were approved by Cabinet on 13th October 2022.

4 Current situation

- 4.1 Following the commissioning of the site to the HSDP the building industry has been subject to an unprecedented bout of cost inflation in all its sectors. This was reported to Cabinet in both the HSDP updates in March and October 2022. Although there are now signs that the rate

of inflation has begun to slow down, this has continued to the present day with resulting increases in the total cost of the Milton Road scheme.

- 4.2 Cost pressures are exacerbated on Milton Road by the inefficient nature of the site. It is a relatively small site and is long and thin. The site has limited storage and set down space and while the site welfare compound will not be far away it will be distinct from the site. Health and safety requirements are particularly important because of the interaction with Station Road.
- 4.3 None of the options considered will remove these issues. This will remain a difficult site however it is dealt with.
- 4.4 Commencement of this site means that Milton Road will be shut for the duration of the construction, although this will be the case in any event when works start on the Poets Corner site.
- 4.5 The current cost plan gives a build cost of £15.8m (which includes a reduction of £154,000 in the Development Management Fee), and total scheme costs of £18.9m including all historic costs, contingency, fees and interest.
- 4.6 While further increases in costs are thought to be unlikely a risk sharing mechanism has been agreed with Wates Construction.
- 4.7 In terms of analysis with GLA grant subsidy of £1.87m plus £1.24m internal subsidy (S106 funding) and cross subsidy from the shared ownership the overall scheme returns a neutral NPV. The council's internal financial hurdle is for the scheme to have a neutral or positive NPV, and therefore this scheme is viable.
- 4.8 The HSDP's Employers Agents IKON, who owe a duty to both parties in the HSDP have analysed the costs and while acknowledging that these are at the higher end of the market, recommend proceeding. They are particularly mindful of the uncertainties and risks of the alternatives.
- 4.9 Considering the benefits of dealing with this difficult site, ensuring that the scheme is in keeping with the wider Poets development, avoiding inappropriate uses, together with delivering new and much needed affordable housing it is recommended that this scheme should proceed via the HSDP. The new affordable housing will make a contribution to the reduction of temporary accommodation costs.

Ward Councillors' comments

- 4.10 The Ward Councillors have been advised of the proposal to progress and of the contents of this report. No comments have been received to date.

5. Risk Management Implications

Risks included on corporate or directorate risk register? **No**

Separate risk register in place? **Yes**

The relevant risks contained in the register are attached/summarised below.
N/A

The following key risks should be taken into account when agreeing the recommendations in this report:

Risk Description	Mitigations	RAG Status
Further scheme cost increases as a result of build cost inflation leading to material increased budgetary pressures on the Council and unaffordability of the scheme	<ul style="list-style-type: none"> ▪ Analysis of market environment suggests major increases slowing and suppliers holding prices ▪ Risk share mechanism agreed with Wates Construction ▪ Taking decision and commencing work will cap the risk of further inflation ▪ Advisors monitoring contract progress and market position ▪ Budget includes contingency sum 	Amber
The risk sharing approach/mechanism is unfair/inequitable	<ul style="list-style-type: none"> ▪ The private sector partner is taking the first risk and the Council the second risk and the risks will be shared equitably thereafter 	Green
The site is particularly difficult to develop leading to an increase in costs making the scheme less profitable than expected	This factor is taken into account in the current prices	Green
There are resident and public complaints and dissatisfaction at the closure of Milton Road required by the scheme	<ul style="list-style-type: none"> ▪ We will be undertaking public notification and providing signage ▪ Appropriate diversions will be provided ▪ Discussion has been undertaken with public transport operators 	Amber

Risk Description	Mitigations	RAG Status
The application to vary the existing planning consent for the scheme is not successful leading to the scheme being delayed or not undertaken after construction has begun	<ul style="list-style-type: none"> ▪ Preapplication discussions have been undertaken with planning officers ▪ The change responds to public consultation ▪ At present in contingency terms there is an existing scheme which Members may want to revert to should issues/problems arise 	Amber
Health and Safety construction risks due to the site location on a very busy corner with frequent high-volume vehicle and pedestrian traffic leading to disruption, complaints, injuries or fines	<ul style="list-style-type: none"> ▪ As the Council's delivery partner, Wates will have responsibility for site safety, and this will be monitored by the Council. ▪ Wates will prepare and deliver a clear health and safety management plan and this will be reviewed and reported on frequently 	Green

10. Procurement Implications

There are no new procurement implications as a result of this decision. The Director of Procurement was fully involved in the decision to commission Milton Road through the HSDP and was satisfied that it complied with the Council's Contract Procedure rules and the Public Contracts Regulations. Build costs have been procured in accordance with the Procurement Policy of the HSDP.

11. Legal Implications

Section 12 of the Local Government Act 2003 gives the Council power to invest for any purpose relevant to its functions under any enactment, or for the purposes of the prudent management of its financial affairs. The Council, however, has a general fiduciary duty to its rate payers to get best value for money and needs to have regard to this duty when making decisions relating to spending.

12. Financial Implications

12.1 The Milton Road Development is a HRA scheme.

- 12.2 In the current Capital Programme, within the Building Council Homes for Londoners Programme, there is a provision of £15.6m to fully fund the Milton Road Scheme. The total lifetime development cost of this scheme has increased to £18.456m, an increase of £2.856m. This increase will have to be provided for in the refreshed Capital Programme (2023/24 to 2025/26) which is subject to approval by full Council in February.
- 12.3 The capital financing costs of £482k must be funded by the HRA, and this takes the total life -time development cost to £18.938m.
- 12.4 The increased capital required will be included in the revised HRA Capital Programme, which feeds into the Council's overall Capital Programme, both of which require Council approval in February.
- 12.5 The additional capital financing costs will be met within the refreshed HRA Budget / MTFs which is also subject to approval by Council in February.

13. Equalities implications / Public Sector Equality Duty

- 13.1 The HSDP has been formed to deliver the Council's regeneration ambitions, initially on three core sites but subsequently on Milton Road and Grange Farm as well. Those ambitions, particularly delivering affordable housing are targeted at creating benefit for all of Harrow's diverse communities. The addition of 36 units to the available housing stock will increase benefits for members of the protected groups, notably the wheelchair units.
- 13.2 A detailed Equalities Impact Assessment (EqIA) was carried out when the decision was taken to establish the HSDP and full EqIA will be carried out in respect of every site -specific business plan. The Poets Corner Business Plan will be brought to Cabinet shortly and Milton Road will be included in the detailed consideration of the implications of that site.

14. Council Priorities

1. A council that puts residents first

The rented homes will be let to households in priority need on the Housing Register and the shared ownership homes will be prioritised for sale to Harrow residents. The letting or purchase of new housing will provide an enhanced customer experience for residents.

2. A borough that is clean and safe

The delivery of 36 units of additional high- quality housing ensures that there is additional safe accommodation available to those in need.

3. A place where those in need are supported

The provision of affordable housing will enable the housing of people in housing need in Harrow. The wheelchair units will provide additional support for those needing that form of accommodation. The shared ownership units provide an opportunity for accessing home ownership for those unable to access full open market housing.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert

Signed by the Chief Financial Officer

Date: 2nd February 2023

Statutory Officer: Esayas Kifle

Signed on behalf of the Monitoring Officer

Date: 2nd February 2023

Chief Officer: Dipti Patel

Signed off by the Corporate Director

Date: 2nd February 2023

Head of Procurement: Nimesh Mehta

Signed by the Head of Procurement

Date: 2nd February 2023

Head of Internal Audit: Susan Dixon

Signed by the Head of Internal Audit

Date: 2nd February 2023

Has the Portfolio Holder(s) been consulted? Yes

Mandatory Checks

Ward Councillors notified: YES

EqlA carried out: NO

Existing EqlA stands and further detailed EqlA to be carried out with Poets Corner Business Plan

EqlA cleared by: Shumaila Dar/ Yasmeeen Hussein

Section 4 - Contact Details and Background Papers

Contact: Julian Wain, Interim Director of Commercial Development, julian.wain@harrow.gov.uk

Background Papers: None

Call-in waived by the Chair of Overview and Scrutiny Committee - NO