

Overview and Scrutiny Committee (Special) - Moved from 28 February 2022 Supplemental Agenda

Date: Tuesday 8 March 2022

Agenda - Part I

3. **Harrow Strategic Development Partnership - Progress Update** (Pages 3 - 26)
Report of the Interim Commercial Director.

4. **Exclusion of Press and Public**

To resolve that the press and public be excluded from the meeting for the following items of business, on the grounds that they involve the likely disclosure of confidential information in breach of an obligation of confidence, or of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972:

Agenda Item No	Title	Description of Exempt Information
5.	Harrow Strategic Development Partnership – Progress Update– Appendix 1.	Information under paragraph 3 (Relating to the financial or business affairs of any particular person (Including the authority holding that information) and paragraph 5 (in respect of which a claim to legal professional privilege could be maintained in legal proceedings).

Agenda - Part II

5. **Harrow Strategic Development Partnership – Progress Update** (Pages 27 - 32)
Appendix 1 to the Report of the Interim Commercial Director.

Agenda Item

3. Harrow Strategic Development Partnership – Progress Update

5. Harrow Strategic Development Partnership – Progress Update, Appendix 1

Special Circumstances/Grounds for Urgency

Members are asked to consider the late report and exempt appendix as a matter of urgency in order to make an informed reference to Cabinet. The report and appendix were not available at point of publish and the necessary clearances were needed to be made.

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**Report for: Overview and Scrutiny
Committee and
Scrutiny Sub-
Committees**

Date of Meeting:	March 08 th 2022
Subject:	Harrow Strategic Development Partnership – Progress Update
Key Decision:	No
Responsible Officer:	Sean Harriss Chief Executive
Portfolio Holder:	Councillor Graham Henson Leader of the Council: Strategy, Partnerships, Devolution, Customer Services and Regeneration Portfolio Councillor Natasha Proctor Cabinet Member: Finance and Resources
Exempt:	Report is public with exemption of appendix I, by virtue of paragraphs 3 and 5 of Part 1 of Schedule 12 A of the Local Government Act 1972 as they contain information relating to the financial or business affairs of the Council and other parties
Decision subject to Call-in:	Yes
Wards affected:	All.
Enclosures:	Appendix I – (PRIVATE) Byron Financial Update/ Build Cost Inflation Challenges

Section 1 – Summary and Recommendations

This report updates Cabinet on the progress of the work of the Harrow Strategic Development Partnership and sets out the next steps and work in forthcoming months.

1.1.1 Recommendations:

Cabinet is requested to:

1. Note the progress of the Harrow Strategic Development Partnership.
2. Endorse the proposed approach to consider the options available to the Council and the partnership, assessing the Council's position through comprehensive due diligence.
3. Approve the strategy to maximise the available affordable housing.

1.1.2 Reason: For Cabinet to understand the progress of the partnership, the issues currently being dealt with and the next steps.

Section 2 – Report

2.1 - Introductory paragraph

2.1.1 - In 2019 Cabinet resolved that a Strategic Development Partnership, established with a private sector partner was the preferred delivery approach for the Development of Poet's Corner, Peel Road and Byron Quarter. Phase 1 (the Core Sites) in the regeneration programme.

2.1.2 - Subsequently, a procurement process under the Public Contracts Regulations 2015 was undertaken from which Wates Residential emerged as the preferred bidder. This was confirmed on 10th September 2020 and following development of the business plans and negotiation of the legal documents, the Harrow Strategic Development Partnership was agreed in July 2021 and established in August 2021.

2.2 - Options considered

2.2.1 - At the outset of the procurement process, the Council considered a range of options and concluded that the Strategic Partnership was the best option.

2.2.2 - The other options considered were:

- Disposal to a developer or builder.
- Direct delivery by the Council.
- Entering a development agreement with a developer or builder.
- Do nothing.

2.2.3 - The chosen option was reviewed throughout the stages of the procurement process, including at the final approval of business plans, and set up stage and no change was recommended.

2.2.4 - The Council is now in contract with Wates in the HSDP, and the chosen option is moving forward with the schemes. This report considers the options for the schemes in detail, and updates Cabinet on progress with them.

2.3 - Background

2.3.1 - The Council's Regeneration Ambitions

The Council's agreed ambitions are:

- To deliver wider regeneration across the Borough via new and improved mixed tenure housing, civic and community facilities, new employment space and the enhanced use of property assets within the Borough.
- To accelerate the pace of housing delivery across the portfolio of sites.
- To secure wider economic and social benefits for local residents, including skills and training, health improvement and new employment opportunities.
- Use existing and new property assets to optimise value for the Council.
- To contribute to the delivery of well-designed, high-quality places that make a difference for communities, businesses, residents, and families both now and in the long term.

2.3.2 - The Council's key priorities in the Core sites are to:

- Reprovide the Civic Centre.
- Provide the Civic Centre at no cost to the Council's General Fund over the period of the partnership.
- Maximise affordable housing across the three sites.

2.3.3 - The Council's housing need and planning targets are significant, amounting to a year-on-year target of 802 dwellings over the next ten years with of course significant pressure for affordable housing. The HSDP with its' proposed delivery of more than 1,500 homes make a significant contribution to this.

2.3.4 - The Council's ambition in maximising affordable housing is to achieve at least the Council's 40% target, and subject to due diligence, continued discussion with the GLA, and viability permitting achieve the 50% target for public land. At initial Business Plan stage in August 2021 the Council was achieving 50% at Byron Quarter and 40% at Peel Road and Poets Corner. The nature of the HSDP designs in terms of height and massing is consequent on the need to deliver both numbers of properties, and affordable housing. Without this, schemes will not be viable under any circumstances.,

2.3.5 - The existing business plan sets out the partnerships' ambitions in social value and economic development and an update is provided below.

2.3.6 - Procurement

2.3.7 - The HSDP was procured initially to deal with the three Core Sites. Peel Road, Poets Corner and Phase 1 of Byron Quarter. Wates Residential have been selected as the Council's private sector partner.

2.3.8 - It was always envisaged that further sites could be added to the partnership and at the Cabinet meeting in November 2021, Milton Road (Plot S) was added to the partnership. The Council also invited the HSDP to submit a Business Plan for consideration for the HSDP to redevelop Grange Farm.

2.3.9 - The Partnership

The HSDP is a Limited Liability Partnership owned on a 50:50 basis by its two members, the Council and Wates. Its work is then conducted through similarly constituted development subsidiaries. The Council and Wates, both have three members on the overarching HSDP Board which is responsible for the day to day running of the partnership.

2.3.10 - How the HSDP works

2.3.11 - There are two mechanisms by which development takes place through the HSDP. Through the Development Agreement route the Council contributes its land, valued at drawdown and this is matched by a financial contribution from Wates. They may also need to partially match Wates contribution with cash to ensure there is sufficient equity to allow for the necessary borrowing for construction.

2.3.12- The Development Agreement route is a conditional option agreement for lease which allows the HSDP to draw down from the Council a 250-year lease of the various sites once the conditions have been satisfied. Byron Quarter Phase 1 is at present an example of the use of this route.

2.3.13 - The process to bring forward a site for development is:

- The overall Business Plan is approved.
- Detailed design development takes place, and a phase business plan is developed and approved.
- Once this is approved by the Council (and by Wates) it constitutes the Council's commitment to transfer the site to the HSDP for Development subject, to certain 'conditions precedent' being met. These include, appropriate planning permission being obtained; vacant possession being achieved and a viable funding scheme being in place.
- Once the conditions are met, the Council's land value is fixed and the land transfers to the partnership on the 250-year lease for work to start.

2.3.14 - The principles of the development are that the HSDP takes the land and develops housing.

2.3.15 - The costs of the development including fees and the returns for the partners (i.e., Wates and the Council), are met by the income received from the sales of the homes. For any scheme to be viable, the income must be equal to or exceed the costs. For there to be a land value to the Council the income must exceed the costs.

2.3.16 - Of course, the Council, because of its own priorities and through the requirements of the planning system provides affordable housing at specific levels. Affordable housing is less valuable in income terms to the scheme than market sale, indeed less than the cost of building and therefore is a net cost to the scheme, pulling the overall value down.

2.3.17 - This means that to be able to make schemes viable they need to be of sufficient scale to enable the provision of affordable housing, and the returns from the market sale homes sufficiently subsidise them.

2.3.18 - As noted above it is this point of development economics that requires schemes, across London (in particular) to be built at height and of the density proposed here.

2.3.19 - It is also what drives the development towards flats and apartments. Schemes based solely on traditional build patterns will never be viable at the levels of affordable housing required by current policy.

2.3.20 - The other process is the Community Works Agreement route. In this instance the Council commissions and pays for those facilities that it specifically wishes to own. In the case of housing, this may be with the assistance of grant. The HNC is the obvious example of this route, and if the Council confirms its intention to commission affordable housing at Peel Road, this would also be done under a Community Works Agreement. These are signed and implemented following a satisfactory planning permission, and the Council then meets the costs. In this route the full cost of the affordable housing is met, reducing the burden on the scheme.

2.3.21 - Good progress has been made with the design development and the production of business plans. We were now close to concluding the second bullet point phase listed above. However, the economic context is not presently favourable for development, because of the current round of build cost inflation and this is presenting some challenges to the Partnership and the Council's schemes. This is exacerbated by the changing requirements of the Building Regulations, and the London Plan in respect of Air Source Heat Pumps, PV Panels, Biodiversity net gain and increasing the specification and u value of windows. The current challenges are resolvable but require careful consideration.

A site-by-site progress update is set out below.

2.4 - Progress Update

2.4.1 - Byron Quarter

2.4.2 - When the Business Plans were agreed in July 2021 the plans for Byron Quarter Phase 1 were as the layout set out in Appendix 'A'; 337 units were proposed, split 50:50 market sale and affordable, with the affordable housing mix split 60:40, London Affordable Rented, and Shared Ownership. The scheme was viable and returned a positive land value to the Council.

2.4.3 - Since that time there has been ongoing design and engagement. There have been reviews with the Major Developments Panel and the Design Review Panel and an initial public engagement, both in person and online which brought useful feedback. Approximately 1,400 invitations were issued to local homes and businesses with a response of 41 people. Topics raised included height of buildings, impact on the park, the suitability of the proposed pathway to Coxe Place, parking provision and road impact, and conservation issues. These continue to be taken account of in the development of the scheme.

2.4.4 - Master planning and design has continued, and the scheme now looks as in the plan at 'B'. The scheme continues to activate the park edge and maintain green links and access routes through to Byron Park, further bringing the park into Byron Quarter. It incorporates 30 additional units and provides additional play space. Subject to consultation, the link footpath from the leisure centre to the Belmont Trail will be diverted and improved. Planning pre-application discussions have been held, and subject to a further round of engagement, the scheme is close to planning application stage.

2.4.5 - However, the effects of the build cost inflation referred to above, together with the new requirements of the London Plan and Building Regulations, are presenting viability challenges. The principal manifestation of this, is that although the scheme remains feasible and developable, it is not at present viable based on the current scheme and at the proposed levels of affordable housing. Byron Quarter becomes viable again at a level of 63:37, market sale to affordable with 55:45 London Affordable Rent shared ownership. Clearly this is not policy compliant and does not meet the Council's aspirations

2.4.6 - The HSDP's overarching Business Plan sets out the following mitigation measures where there are challenges to the viability of a scheme:

- Consider design changes, such as changes to massing or density, room sizes etc (cost/ value drivers).
- Consider programme delivery, and phasing changes (bring forward or delay phasing and delivery).
- Consider alternative tenure options, possible forward sales (more / less PRS, Senior Living, bulk sale etc).
- Consider value engineering options including build specification.
- Pause or suspend until mutually acceptable alternative route forward, with an amended HSDP Business Plan.
- Consider alternative funding options, such as grants.

- Consider tenure changes (increase/ decrease of affordable), including typology of affordable housing.

2.4.7 - In addition, a detailed review of the costs and the assumptions that have been made in the appraisal is required, together with consideration of the amounts and phasing of returns.

2.4.8 - A further option is to switch delivery approaches, and for the Council to commission and purchase the affordable housing in its entirety, through a Community Works Agreement approach as set out above. This would mean that the Council would be directly commissioning and paying for the affordable housing which would allow full value for the market sale on the other part of the site giving both a land value to the Council and increased returns. This approach appears to offer potential in the case of Byron Quarter, but the right course of action is not to adopt that approach in isolation, as this may affect the Council's ability to purchase and own homes at a later stage. Instead, the Council needs to take detailed consideration of the options, the financial implications, and the potential outcomes of each of the possible courses of action. This is a genuine potential option for the Council which may offer a solution.

2.4.9 - Poets Corner

2.4.10 - At the establishment of the HSDP in July 2021, with the agreement of the overarching business plan, the redevelopment of Poets Corner was as set out in the layout at Appendix 'C'. Work has continued, on a range of design issues including MEP plant, refuse, cycle storage, fire safety, massing, and tenure, maximising the usable space, townscape, and logistics. Careful regard has been had to the changes in levels, and the significant services that cross the site. Good progress has been made and the design has now iterated to that shown on the diagrams at Appendix 'D', which includes 1,104 homes, an increase from the original Business Plan of around 100 homes.

2.4.11 - A Planning Performance agreement has been drafted and is ready for signature, and helpful pre application discussions have been held. The first public engagement is scheduled for the spring or early summer of 2022.

2.4.12 - This scheme is also subject to the pressures of build cost inflation, and a detailed financial appraisal is underway. However, the Council's partner, Wates, together with the Council's advisers expect this scheme to be considerably less affected due to the increase in dwellings, and particularly the length of time over which this scheme is to be developed, which mitigates the effect of inflation, not least because sales values are likely to increase over the period.

2.4.13 Grange Farm

2.4.14 - At the Cabinet meeting in November 2021, Cabinet resolved to offer the HSDP, the opportunity to prepare an initial Business Plan for the Council to consider the development of phases two and three of Grange Farm, by the HSDP. Members will recall that there is an existing outline planning

permission for the Grange Farm site, shown at Appendix 'E'. In November, based on the development of 485 homes, the site had a positive land value and the 185 affordable homes which were to be provided through the Community Works Agreement route, were likely to be affordable to the Council's Housing Revenue Account.

2.4.15 - As with Byron Quarter, inflationary pressures, and the additional demands from the requirements of the planning system have increased the build costs on this scheme and provided challenges for scheme viability.

2.4.16 - However, with this scheme, Wates have been looking at optimising the design and cost efficiency throughout the business planning period since November.

They are concentrating on five key areas:

1. *Revised form and open space* – with a view to providing more open space and public and private landscaped amenity.
2. *Building Plan efficiencies* – potential to provide more dwellings and a greater proportion of family homes.
3. *Reduce/ eliminate "deck access" building typologies* – this will improve efficiency (and potentially appearance) with more dwellings using the same core.
4. *Building heights* – Subject to the Aviation Safeguarding constraints and detailed dialogue with the MOD, assess the potential to amend/ add to building heights.
5. *Roof forms and energy strategy* – The original complex sloping roof forms to be reconsidered in the context of up -to- date energy, and sustainability policies, and the opportunity for additional biodiversity.

2.4.17 - The outcome of this work is initially positive. Early findings indicate that an increase of at least 10% net internal area is achievable, and that there is potential for additional dwellings, including family dwellings. In addition, there are significant potential cost savings based on efficiencies, simplified roof forms, up to date energy strategies and biodiverse planting.

2.4.18 - Subject to further due diligence this may mitigate the cost pressures and produce a positive scheme with the proposed level of affordable housing.

Key next steps are dialogue with the Ministry of Defence, agreement of the appropriate planning strategy, development of a programme for resident consultation and further due diligence on the financial outcomes.

2.4.19 - Peel Road including the HNC

2.4.20 - At the setup of the HSDP last year, the Peel Road site provided a modest land value through the disposal of the PRS block. The HNC and the proposed affordable housing were modelled based on the Council

commissioning these directly, and the HNC was within the bounds of cost neutrality, according to the Council's agreed criteria. The scheme proposed three buildings as shown at Appendix F, giving approximately 190 homes through a block of units, of privately rented homes, a block with 46 units of affordable housing and the HNC.

2.4.21 - The recent work has included securing resources to provide 'critical friend' advice for the design and developing the scheme for engagement with members. Work has taken place to consider the schedule of areas required in the building, to confirm the required capacity and expected occupancy. Space requirements and their level of public access to help determine the flow of visitors through the building, has also been modelled as has the sanitary provision needed to meet the expected occupancy levels.

2.4.22 - The Register Office and associated requirements has been added back into the scheme and the brief on the Council Chamber, to ensure that the Civic functions can be fulfilled, and drafted for agreement with Members. A clear narrative on the purpose of each area and how it might be used, has again been developed for discussion with Members.

2.4.23 - Design Team meetings have commenced and pre-application meetings with Planning have been arranged. The site masterplan has been amended to provide two separate buildings rather than three as shown at Appendix G, providing several benefits:

- Enhanced functional civic centre – Additional ground floor space giving better public accessibility, together with improved visibility of HNC from Wealdstone and improved prominence of the building.
- Better accommodation in the proposed affordable housing block with more dual aspect properties, improved sunlight and daylight and better access arrangements.
- Enhanced public realm including play areas.
- Improved security and oversight through design and inclusion of active frontages.

Inevitably, the cost inflation affecting the other sites will have affected Peel Road and detailed cost analysis is now being undertaken.

2.4.24 - Milton Road

2.4.25 - The Cabinet report of November 2021 offered this site to the HSDP, through a Community Works agreement, principally to ensure that the Council made a meaningful start on site by the end of March 2022, to avail itself of grant funding from the GLA. Given the proximity to Poets Corner, there was also merit in the HSDP, and initially at least, the same architects progressing the scheme. The Cabinet report delegated authority to the Chief Executive following consultation with the Corporate Director Community, the Leader of the Council and Portfolio Holder for Strategy, Regeneration, Partnerships and Devolution and the Portfolio Holder for Housing to agree the terms of, and formally enter into the Community Works Agreement.

2.4.26 - The Milton Road scheme received planning permission on 16th February 2022. The scheme is shown at Appendix H. The terms of the CWA

have been agreed, together with a demolition contract and a building contract between the HSDP and Wates Construction. The total project budget is £15.8m which is affordable within the overall Building Council Homes for Londoners project budget in the Capital Programme and HRA.

The deal has been signed by the Chief Executive following consultation in accordance with the delegation above. Demolition will start during March 2022.

2.5 - Social Value

2.5.1 - Considerable work and progress have been made on the social value plans of the partnership. Action plans have been created and these will be brought back to Cabinet along with the Business Plans in the spring/ early summer, with consideration by the HSDP board. Performance monitoring and management arrangements are currently being put into place including diversity and equality monitoring.

2.5.2 - The action plans are based under three headings with supporting projects.

1. 'Inspiring Aspirations' includes the provision of Apprenticeships, work experience opportunities, and supporting unemployed residents to employment.
2. 'Creating social and economic prosperity' includes local supply chain spend, business support and job creation.
3. 'Growing stronger and more sustainable communities' covers initiatives such as employee volunteering, projects with schools and the community and support to voluntary organisations.

2.5.3 - The partners have compiled a list of stakeholders and begun contacting them, also establishing relationships with Harrow schools and a steering group in the education field. Arrangements are being put in place for work experience with consultant's teams. Local area scoping and visits have been made by the Social Value team to each location.

A number of activities have already taken place including:

- Careers Information event held on the 11th of February at Shaftsbury School to Sixth Formers.
- £5,000 Grant application submitted for Harrow Action for the Disabled (HAD) supporting Health & Wellbeing Project.
- Partnerships formed at St Gregory's Foodbank & Employment Hub.
- London Community Kitchen:
Wates staff volunteered and supported service delivery on Saturday 19th Feb.

Future planned events include:

- Meet the Developer Event relating to Milton Road:
This will give an opportunity for residents to meet with Wates and Council representatives, to find out more about the building project, voice their concerns and find out about the Social Value offer, employment, and training opportunities.
- Virtual Careers Talk - Vaughn Primary School for 10th March.
- Litter Pick:
The site team, sub-contractors, and local residents.
- Pop up business school.
- Meet the Buyer Events.

2.5.4 - Additional Car Parking

The Council is investigating the feasibility of additional car parking at a number of sites in Wealdstone, namely:

- Churchill Place
- Masons Avenue
- Canning Road
- Additional Off-Street Parking

A detailed feasibility study has now been received and is subject to analysis. Further reports will be brought to members in due course.

2.5.5 - Building and access security

Though not directly the responsibility of the HSDP, members raised concerns with regards to security with the regard to the Accommodation Strategy and the Peel Road site, particularly the HNC. A number of strands of work are in progress and Cabinet will receive a further update in due course.

2.5.6 - Next Steps

2.5.7 - The way forward for each site is set out in the site-specific updates above. These will bring together a complete picture of where the HSDP now is.

2.5.8 - Overall, for the Council as a whole, there is a need to examine the effect that each site will have on the overall HSDP Business Plan, and how that translates into financial implications for the Council.

Detailed scrutiny of the cost and income assumptions is required with further modelling of possible scenarios.

2.5.9 - The solutions in terms of design, programme, tenure and value engineering, need consideration together with the possibility of adopting alternative delivery routes, such as through the Council commissioning housing and using the Community Works agreement route.

2.5.10 - In each potential solution, the Council needs to do, due diligence, to assess the impact on both the General Fund and the HRA and arrive at the optimum solution. Although a solution is needed for each site, the overall

solution that allows the Council to best meet its aspirations and maximise the affordable housing across the projects needs to be identified. There are solutions for the current challenges, but the period of review to optimise this is essential.

2.5.11 - On the basis of the detailed review further discussion with regard to grant assistance will take place with the GLA considering the implications of viability and looking at other means of support to the schemes.

2.5.12 - Detailed phase Business Plans will come back to Cabinet for each of the sites, together with an amended overarching HSDP Business Plan.

2.5.13 - This review process will be supported by the Council's commercial advisors Avison Young.

2.5.14 - These will be brought back to Cabinet in the late spring or early summer, likely to Cabinet in July.

2.6 - Environmental Implications

2.6.1 - The HSDP is developing an energy strategy for all the HSDP sites for agreement by the Council, on the recommendation of the HSDP Board.

2.6.2 - This strategy will be based primarily on reducing carbon emissions and minimising the cost to the end user but will clearly look to minimise capital cost and maximise maintainability of systems.

2.6.3 - The detail of this strategy, and its implications for each site will be available in the detailed phase Business Plans.

2.6.4 - Risk Management Implications

Risks included on corporate or directorate risk register? **Yes – The HSDP risk is included in the Corporate Risk Register and will be updated to reflect the risks highlighted in this report.**

2.6.5 - Separate risk register in place? **Yes – Procurement Risk Register now coming to an end. HSDP risk register will be determined and monitored by the board**

The relevant risks contained in the register are attached/summarised below.
n/a

2.6.6 - When Cabinet approved the establishment of the HSDP in July 2021, the following risks were identified. At the point of this update report, the risks are still relevant. However due to the financial viability issues for a number of the schemes within the programme which are being worked through as explained in the next steps section of this report, three risks have been moved from amber to red:

- The Business Plan does not meet Council's requirements / is unachievable / unaffordable

- Financial Viability
- Failure to achieve financial profiling

Risk Description	Mitigations	RAG Status
<p>The Council does not receive best consideration for its assets in accordance with s123 LG Act 1972</p>	<ul style="list-style-type: none"> ▪ The letter from the Council's commercial advisors Avison Young, included at Appendix 9 of the July report sets out AY's assessment of the Council's commercial position in the commercial deal. This is to confirm that the Council is receiving best consideration for its assets under s123. Similar assurances will be required at the conclusion of each phase business plan. 	<p>Green</p>
<p>Inadequate Governance & Assurance</p>	<ul style="list-style-type: none"> ▪ All formal decisions made by the Council in respect of the HSDP are subject to the Council's normal decision -making process ▪ Decision making supported by the Council's Corporate Strategy Board, and the Building a Better Harrow Board <ul style="list-style-type: none"> ▪ Delegations Policy ▪ Financial structure ▪ Legal structure ▪ Business Plan ▪ Cabinet and Overview and Scrutiny oversight ▪ GARMS involvement as appropriate 	<p>Amber (as still in planning stage)</p>
<p>Business Plan does not meet Council's requirements/ is unachievable/ unaffordable</p>	<ul style="list-style-type: none"> ▪ Developed from the Council's ambitions for regeneration ▪ Covers the agreed three sites ▪ The Council's financial and commercial advisors have judged the model to be financially viable and meet cost neutrality criteria <ul style="list-style-type: none"> ▪ Achievable mitigation ▪ Continued viability review 	<p>Red</p>

	<ul style="list-style-type: none"> ▪ Business plan review ▪ Option to consider changes to: <ul style="list-style-type: none"> ▪ design – massing and density ▪ Tenure ▪ Value engineering ▪ Alternative funding ▪ Changes to programme via phasing or delay ▪ Cost management pre and post construction using all available mitigations 	
Decisions made by the HSDP are inappropriate/ do not represent VfM/ lead to financial loss	<ul style="list-style-type: none"> ▪ Decisions must be in-line with Business Plan ▪ Delegations' policy containing limits on decisions to be made by the HSDP ▪ Involvement of Cabinet in particular decisions e.g., changes to the Business Plan ▪ Client -side monitoring 	Amber
Inadequate skills on the Client Side to monitor HSP performance and control risks	The Council is currently reviewing its 'client side' structure to ensure that it has the necessary skills and abilities to monitor the HSDP performance and control risks from the outset.	Amber
Change of scope to developments, particularly HNC leading to increased cost/delay	<ul style="list-style-type: none"> ▪ Engagement with political groups and stakeholders ▪ Business Plan and design review with Wates 	Amber
Political change of administration or approach within Administration causing a change in requirements leading to abortive/increased cost and delay	<ul style="list-style-type: none"> ▪ Regular briefings ▪ Contingency planning ▪ Appropriate legal mechanisms 	Amber

<p>Planning risk</p> <ul style="list-style-type: none"> • political risk • regulatory change • height and mass required to make schemes viable will make obtaining planning permission more challenging 	<ul style="list-style-type: none"> ▪ Regular briefing with political groups to continue ▪ Risk allowance for climate change and energy strategy changes ▪ Developer and contractor contingency included in financial model ▪ pre-application meetings with Planning 	Amber
<p>Programme change or delay leading to increased costs.</p> <ul style="list-style-type: none"> • Professional team • Market changes • Interest/ funding 	<ul style="list-style-type: none"> ▪ Prompt decision making in accordance with delegations' policy ▪ Avoid scope change ▪ Market and economy monitoring 	Amber
<p>Financial viability</p> <ul style="list-style-type: none"> • Cost increase • Revenue risk – market • Land value • Cost overruns • changing requirements of the Building Regulations, and the London Plan in respect of Air Source Heat Pumps, PV Panels, Biodiversity net gain and increasing the specification and u value of windows 	<ul style="list-style-type: none"> ▪ Continued viability review ▪ Business Plan review ▪ Option to consider changes to: <ul style="list-style-type: none"> ▪ design – massing and density ▪ Tenure ▪ Value engineering ▪ Alternative funding ▪ Changes to programme via phasing or delay ▪ Cost management pre and post construction using all available mitigations 	Red
<p>Failure to achieve financial profiling</p>	<ul style="list-style-type: none"> ▪ Establishment of effective Council client side for monitoring and reporting ▪ Regular partner meetings 	Red
<p>Commercial partner</p> <ul style="list-style-type: none"> ▪ Change in direction ▪ Stability 	<ul style="list-style-type: none"> ▪ Engagement with commercial partner ▪ Monitor market and media ▪ Use professional networks and advisers 	Green
<p>Risk of being a development partner in the HSDP</p>	<ul style="list-style-type: none"> ▪ Engagement with commercial partner ▪ Monitor market and media 	Amber

<ul style="list-style-type: none"> • Performance will impact on cash profiling of the Council • Should LLP face major difficulties secured assets may be required to meet debt liability • Loss of Capital Receipts or dividends 	<ul style="list-style-type: none"> ▪ Use professional networks and advisers ▪ Establishment of effective Council client side for monitoring and reporting ▪ Regular partner meetings 	
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2.6.7 - Procurement Implications

There are no direct procurement implications arising from the recommendations of this report. We will support the delivery of this project where it requires procurement input to ensure that we continue to make compliant procurement decisions pertaining to HSDP

2.6.8 - Legal Implications

Signed by: Esayas Kifle.
Esayas.Kifle@harrow.gov.uk.

There are no immediate legal implications arising from the recommendations in this report.

In any decision the Council makes it needs to have regard to the requirements of S.123 of the Local Government Act 1972. The section gives the Council authority to dispose of land held by it in any manner it wishes if it is for the best consideration that can reasonably be obtained. Where the Council considers that the purpose for which the land is to be disposed is likely to contribute to the promotion or improvement of economic well-being, social well-being or environmental well-being in respect of the whole or any part of its area, or of all or any person's resident or present in its area, it may dispose of its land at less than best consideration provided that the undervalue does not exceed £2 million.

S.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, also has a general fiduciary duty and needs to have regard to this duty when making decisions relating to disposal of its assets or spending.

2.7 - Financial Implications

This section details the financial implications for the development sites referred to in this report:

2.7.1 - Byron Quarter, POETS Corner and Peel Road (including the HNC)

These are the three core sites included in the HSDP in July 2021 when Cabinet approved the report 'HSDP – Contract Close and Establishment'. Until the review process, as detailed in the next steps section of this report, has been completed and the implications understood for the individual schemes and the overall HSDP Business Plan, the financial implications of the three schemes remain as per the original Business Plan reported to Cabinet in the July 2021 report. These implications are replicated below:

The Implications from the HSDP Financial Viability Model – Council Investment and Returns for the three Core Sites

2.7.2 - The Financial Viability Model encompasses the financial implications of the Harrow Strategic Development Partnership for the three core sites (Peel Road, Bryon Quarter and Poets Corner) and the new Harrow Civic Centre (HNC) including basement parking. The model is based on the planned activity within the Business Plan which is recommended as part of this report. The Business Plan will be subject to review which will lead to changes in the model and this will be managed and reported through the governance arrangements supporting the development partnership.

2.7.3 - The model covers the 12-year period of the partnership arrangement, from 2021 to 2032. The values quoted for the Councils capital requirements and investment returns are in line with the model at the point of agreeing the Business Plan. The details of which are summarised below:

The Councils total capital investment over the 12-year period will be £48.690m:

£26.790m – Capital investment into the HSDP. This is in addition to the required transfer of land into the partnership, the land being valued at £11.640m for the purposes of the model. This cost includes a 5% developer contingency.

£17.073m – Capital investment to fund the building of the new Harrow Civic Centre along with the provision of 40 basement care parking spaces. This cost includes a 10% build contingency and will deliver a building to Category B fit out. It is accepted that the Council will incur an additional fit out cost for those items not included as part of the Category B fit out, including:

- Loose furniture (i.e., desks and chairs and branded materials and décor)

- Loose IT and hardware
- Decant and removal costs
- Audio visual equipment and building entry solutions

2.7.4 - This will be required nearer the completion of the project in 2025/26.

The capital investment requirement will be funded by a total of £38.430m capital receipts received from the partnership as properties are completed and sold, as detailed:

£26.790m – capital receipts in repayment for the £26.790m capital investment in the HSDP

£11.640m – capital receipts in repayment for the £11.640m land value. This value will be subject to change subject to land valuations at the point of draw down. This in turn will impact on the level of capital investment required (currently per the model £26.790m) to ensure the Council's overall investment matches the partners equity.

2.7.5 - After accounting for capital receipts, the Council is left with a net borrowing requirement of £10.260m over the 12-year period. The Council's peak debt requirement is reached in 2029 at £30.7m.

2.7.6 - In terms of revenue implications, the model calculates interest payments due to the Council at £9.384m:

£1.884m interest on the land draw value of £11.640m
£7.5m interest on the £26.790m investment in the HSDP.

2.7.7 - The Council will hold these interest payments to fund the capital financing implications of the net borrowing requirement of £10.260m. In addition, the model calculates that JV dividends of £39.213m will be received over the 12-year period. The first call upon these dividends will be the repayment of borrowing to ensure there is no remaining debt at the end of the partnership.

2.7.8 - The financial profiling of investment and return (including capital receipts) of the current Business Plan is shown in Appendix J

2.7.9 - Once the review process has been completed, the financial implications for the Council, both against the individual schemes and the overall HSDP, will be refreshed and reported back to Cabinet.

2.7.10 - In terms of the affordable units to be delivered across the three core sites, only the 168 units at Byron Quarter have assumed to be bought by the Council and managed within the HRA. A total scheme budget of £54.6m is included in the Capital Programme within the project 'Building Council Homes for Londoners'. This is funded by a combination of prudential borrowing and other internal HRS resources of £40.52m and GLA grant of £14.080m. All units will be held within the Council's Housing Revenue Account, affordability

has been tested and the units are included in the 'HRA 2022/23 & MTFS 2022/23 to 2024/25' report approved by Council in February 2022. No decisions around the Council buying other affordable units on the three core sites from the HSDP have been tested for affordability and included in Council Plans.

2.7.11 - The Council's Capital Programme 2022/23 to 2024/25 includes a sum of £8.525m against the project 'Investment in 3 Core sites.' As part of the outturn process for 2021/22, the sum of £8.525m will be increased by the value of slippage from 2021/22.

2.7.12 - Grange Farm –Phases 2 & 3

In November 2021 Cabinet delegated authority to the Corporate Director of Community to commission the HSDP to develop a detailed Business Plan for Grange Farm Phases 2 & 3 to be brought back to Cabinet for approval. An indicative placeholder budget has been built into the 5-year HRA capital programme for Grange Farm phases 2 and 3 (£33.340m and £23.649m respectively) as well as an infrastructure budget of £8.527m (to meet the Council costs associated with these phases, which will be confirmed as part of the phase 2 & 3 report to Cabinet in early 2022. The Council's Capital Programme includes the first three years of the 5-year plan and will be refreshed annually.

2.7.13 - Council plans currently include no capital funding to fund the building of market sale properties as part of phases 2 and 3. Once the commissioned Business Plan has been received and the review process has been completed, the feasibility of the market sale properties will be known and built into Council Plans accordingly. This process will be brought back to Cabinet for approval.

2.7.14 - Milton Road

There is a total project budget of £15.8mm included in the Capital Programme within the overall project 'Building Council Homes for Londoners' to build 39 affordable units on Milton Road. This is funded by a combination of prudential borrowing and other HRA internal resources and GLA grant. All units will be held within the Council's Housing Revenue Account; affordability has been tested and the units are included in the 'HRA 2022/23 & MTFS 2022/23 to 2024/25' report approved by Council in February 2022.

2.7.15 - Additional Car Parking

At present there is no financial provision in the Council's revenue budget or capital programme to fund additional car parking.

2.7.16 - Regeneration Team

2022/23 is the final year of temporary funding set aside for the Regeneration Team. A permanent budget of £1.250m has been included in the Council's three-year MTFS from 2023/24.

2.8 - Equalities implications / Public Sector Equality Duty

- 2.8.1 - When taking decisions, local authorities must have due regard to the Public Sector Equality duty contained in section 149 of the Equality Act 2010.
- 2.8.2 - The Harrow Strategic Development Partnership is being formed to deliver the Council's regeneration ambitions on the three core sites, and other sites subsequently added. These objectives, particularly in terms of the acceleration of the pace of housing delivery are specifically targeted at creating benefit for all of Harrow's diverse communities. Therefore, in order to ensure that the impacts on communities, and particular groups are understood, and how the Harrow Strategic Development Partnership can maximise benefits to Harrow residents, Equalities Impact Assessments (EQIAs) will be carried out accordingly on a project -by -project basis on all scheme Business Plans and proposals.
- 2.8.3 - In terms of this decision an EQIA was carried out as part of the Cabinet report recommending the setting up of a Development Partnership in May 2019. A further EQIA was carried out for the report recommending contract close and the establishment of the HSDP. Business Plans under development will be accompanied by full detailed EQIAs as part of the evidence base for the Cabinet decision to approve the relevant Business Plan. This report which details the progress of the HSDP and outlines the work required to achieve viability and maximise affordable housing is a significant step on the road to that evidence base.
- 2.8.4 - The LLP documentation requires the Harrow Strategic Development Partnership to comply in all respects with legislation and good practice.
- 2.8.5 - There are no further implications at this stage.

2.9 - Council Priorities

- 2.9.1 - The activities of the HSDP will have a major impact on the Borough Plan and help address all the Council's priorities in one way or another. They are unchanged from the report recommending the establishment of the HSDP in July 2021. In particular, it will significantly impact on the following:
- 2.9.2 - Priority 1 - Improving the environment and addressing climate change: Through the quality of build, designing in more sustainable forms of transport and building real local communities this priority will be supported through the HSDP as it builds new homes on the three key sites.
- 2.9.3 - Priority 3 - Building Homes and Infrastructure: There is a growing need to build new homes, and in particular new affordable homes in Harrow. The HSDP is central to this. The three sites where building will take place are all strategically linked to the transport hub of Wealdstone so will enable investment in infrastructure already being made in Wealdstone to connect and support residents now and in the future.

The drive for a greater level of quality affordable housing will also support Harrow residents who are struggling with a higher proportion of their incomes being taken up with rent, so that they can live in a quality home, near to shops and local transport hubs and have disposable income to spend in Harrow's economy.

2.9.4 - Tackling poverty and inequality: through good jobs being created through construction work, including apprenticeships for local people, to building genuinely affordable quality housing, the HSDP will support Harrow residents by offering opportunities for work, whilst enabling a greater part of the income from those living in affordable homes to be spent in the local Harrow economy, thus generating more jobs and supporting the circular economy. Coupled with the excellent schools in Harrow, the opportunity for families to stay in Harrow with better local job prospects, better income equality and better facilities will be a key benefit of the regeneration enabled by the HSDP.

2.9.5 - Thriving Economy: As set out above, the creation of good jobs, and the increase in disposable income enabled by better pay and lower costs of living that affordable homes will support, will mean that local spend in Harrow, and in particularly Wealdstone, is a once in a generation opportunity that the HSDP can enable. The Council's Economic Development Strategy (also on the agenda for Cabinet this evening) recognises this opportunity, and through greater investment already being placed into the Wealdstone area there is real opportunity to create a thriving high street and make a sustainable impact on business growth in the area.

Section 3.0 - Statutory Officer Clearance

Statutory Officer:

Signed on behalf of the Chief Financial Officer

Dawn Calvert Dawn.Calvert@harrow.gov.uk **Date:02/03/2022**

Statutory Officer:

Signed on behalf of the Monitoring Officer

Hugh Peart Hugh.Peart@harrow.gov.uk **Date:02/03/2022**

Statutory Officer:

Signed on behalf of the Head of Procurement

Nimesh Mehta Nimesh.Mehta@harrow.gov.uk **Date:02/03/2022**

Statutory Officer:

Signed by the Corporate Director

Sean Harriss Sean.Harriss@harrow.gov.uk **Date:02/03/2022**

Statutory Officer:

Signed on behalf of the Head of Internal Audit

Susan Dixon Susan.Dixon@harrow.gov.uk **Date:02/03/2022**

3.1 - Mandatory Checks

Ward Councillors notified: / NO*, as it impacts on all Wards

EqlA carried out: / NO*

If '**NO**' state why an EqlA is not required for Cabinet to take a decision

EqlA cleared by: Shumaila Dar: Shumaila.Dar@harrow.gov.uk

Section 4 - Contact Details and Background Papers

Contact: Julian Wain

Julian.wain@harrow.gov.uk

Background Papers:

Cabinet Reports relating to HSDP

- **30 May 2019**
- **10 Sep 2020**
- **15 July 2021**

Cabinet report relating to the Council's Accommodation Strategy

- **27 May 2021**

Cabinet reports relating to Milton Road and Grange Farm

- **18 Nov 2021**

**Call-in waived by the Chair of Overview and Scrutiny
Committee**

(for completion by Democratic Services staff only)

NO

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