

REPORT FOR: **CABINET**

Date of Meeting:	17 June 2015
Subject:	Grange Farm Regeneration – Progress, Planning and Implementation
Key Decision:	Yes
Responsible Officer:	Lynne Pennington, Divisional Director of Housing Services
Portfolio Holder:	Councillor Glen Hearnden, Portfolio Holder for Housing
Exempt:	No, except for appendix 2 to the report which is exempt under paragraph 3 of Schedule 12a of the Local Government Act 1972 as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
Decision subject to Call-in:	Yes
Wards affected:	Harrow on the Hill
Enclosures:	Appendix 1 : Financial support for Leaseholders and Freeholders Compensation payable to tenants Appendix 2 (Exempt) : Financial Appraisals, proposed land acquisitions and Contractual arrangements for appointment of Development Partner

Section 1 – Summary and Recommendations

This report sets out the progress made in preparing for the regeneration of the Grange Farm estate and the necessary further approvals required to take the next steps. These approvals include the ability to purchase property and land not in the council's ownership, and the process to enter into a joint venture / contract with a development agent

Recommendations:

Cabinet is requested to:

- 1) Approve the purchase of various land parcels and buildings identified in Appendix 1 to the report and delegate to the Divisional Director of Housing Services, following consultation with the Housing Portfolio Holder, authority to enter into negotiations and contracts for purchase of land where the scheme will be enhanced and/or is forecast to recover the expenditure in the interest of land assembly.
- 2) Delegate to the Divisional Director of Housing Services, following consultation with the Housing Portfolio Holder, authority to negotiate with existing leaseholders to repurchase leases at rates compatible with minimising costs while reducing the risk of a full CPO process.
- 3) Authorise the making of payments to leaseholders in line with their entitlement to statutory Home Loss and Disturbance costs
- 4) Authorise officers to either proceed with
 - a) the selection (in compliance with EU Procurement Rules and council standing orders) of a constructor on the basis of a joint venture or Design & Build contract allowing for a parcel of the site to be transferred to the constructor /developer in order to minimise the council's initial costs.
 - Or b) recommend that the Council retains overall control of the project and undertakes the full development including the sale of private units.

(In the event that b) is the preferred option and in the best interests of the Council a further report will be produced for Cabinet to consider).

- 5) Approve the principle of an equity share scheme for those resident leaseholders or freeholders who would otherwise be unable to raise sufficient capital to purchase outright or, via shared ownership, a replacement property, as set in appendix 1.
- 6) Authorise the appointment of external legal advisors to give guidance on contracts required to appoint the construction partner and to transfer the land for the private element of the development, where the Director of Legal & Governance Services identifies that this would be beneficial.
- 7) Confirm that officers can begin preparatory work in relation to a Compulsory Purchase Order.
- 8) Authorise the creation of capital budget within the Housing Account of £6.102m as described in this report. In addition to authorise the Director of Housing, after consultation with the Housing Portfolio Holder to vire money between the existing budget allocation of £6.2m identified for the purchase of 20 properties for the HRA and the Grange

Farm repurchase of properties / land assembly as required.

Reason: (For recommendations)

The regeneration of the estate is a complex process with numerous stakeholders who have interests in the estate. The recommendations are required to authorise officers to take action to deliver the scheme.

Section 2 – Report

2.1 Introductory paragraph

2.1.1 The cabinet reports of July 2014 and January 2015 set out the overarching objectives and first steps for the regeneration of the Grange Farm estate. The overall scheme will demolish 287 council or ex-council properties and build *circa.* 500 properties at an estimated total scheme cost of £80M, producing double the existing density and enabling costs to be largely recovered through the sale of half of the units.

2.2 Options considered

2.2.1 Consideration was given to the option of abandoning the proposed redevelopment, but there have been no changes that would suggest that the redevelopment should not remain the preferred option.

2.3 Background

2.3.1 This project has the potential to produce a prestigious and sought after development in South Harrow to uplift this area of the borough and reinvigorate the local economy. A strong field of architects wished to bid for this scheme and this supports the very positive early appraisals given by other consultants. The preferred architect has proposed the creation of a new environment which instead of being an isolated island of poor quality housing will be fully integrated with a vibrant feel that encourages the ebb and flow of daily life and creates clear links with the main Northolt Road and surroundings. The work done by officers and residents to establish a clear path to regeneration is now starting to pay dividends as Steering Group representatives were an integral part of the architect selection process. The progress made to date is listed below

- Housing Needs Survey completed
- 18 properties let on a temporary basis pending demolition
- Client Advisor, Employers Agent and Architects appointed
- Resident Steering Group set up and Independent Tenant Advisor appointed
- Discussions held with some of the other landowners about options to purchase
- Service of Initial Demolition Notices
- Initial surveys completed (Rights of Light and Sub-Surface)

- 2.3.2 With the appointment of the architects for the scheme, the development is moving into the final stage of preparation. This will entail the setting of the final site boundaries, phasing of the development and the confirmation of budgets.
- 2.3.3 The council will need to acquire a range of property and land interests (including leases) at an early stage in order to be confident that the scheme can be delivered. Part 2 of this report lists the land and buildings that will need to be acquired together with some additional land which it might be necessary to acquire in order to deliver an attractive development that will enhance the marketability of the units for sale.
- 2.3.4 The repurchase of freehold and leasehold interests will require the payment of compensation and it is proposed that this should be agreed in line with the statutory minimum provided for within the Compulsory Purchase framework. A summary of these provisions is provided in appendix 1.
Officers also wish to confirm that the Home Loss and disturbance payments to tenants as set out in appendix 1 will be payable. During the course of the scheme the Home Loss amount may be increased and the new rates will be applied automatically.
- 2.3.5 The negotiation of the market value of each property will need to be conducted on the basis of the valuation advice received from the council's internal valuers. However, some level of negotiation around the figure recommended by the in-house valuers will inevitably be necessary if the council wishes to progress with the minimum of delay and to avoid protracted CPO procedures. The confidential section of the reports sets out a framework of delegation which is suggested to allow this negotiation to be conducted efficiently and maintains accountability for the expenditure of the funds.
- 2.3.5 Due to the nature of the Resiform flats at Grange Form which owing to their construction type offer accommodation which is difficult to maintain, the market valuation of the properties will be below the average market price in the area. This is likely to present resident leaseholders with a dilemma, as they are unlikely to be able to afford to buy a replacement home without finding additional funds to purchase the property and they may not be in a position to take out further loans to finance this. An option used on previous regeneration schemes, where the council has transferred ownership, has been to offer a shared ownership option to purchase on the new development. However, some residents are reluctant to take on the additional rental obligations particularly if they are on fixed incomes. It would be an option for the council to take an equity stake in a flat in the new development allowing the existing leaseholders to continue living in the same community without increasing their financial commitment. The council would receive back their relative % equity share upon sale of the flat in the future. This is discussed in more detail in appendix 1
- 2.3.6 Having virtually completed the process for the appointment of architects the next major step in the project will be the appointment of a construction partner. This process will be equally critical to the success of the project as the value created in the properties for sale needs to be sufficient to meet the majority of the scheme costs. It is planned that we use the London Development Panel framework to

invite bids for the development as this framework is already OJEU compliant and has a range of 25 large developers.

- 2.3.7 The architects appointed will need to produce a Master Plan for the estate allocating specific property units and/or land for the private development. The protection of the council's interests and the creation of a contract that is capable of handling various delays or changes to circumstance during the development period are critical. Expert legal advice is required to guide the council in the establishment of this relationship. The current preferred process would transfer the risk of producing the units for sale and the achievement of the projected sales values to the developer. This would include provisions for the transfer of land, the distribution of surpluses from the development and the ability to enter onto the council's land to commence development prior to transfer. However, should the council consider, under its developing commercialisation strategy, that the reward is sufficient it may wish to either take the responsibility for funding the scheme and the resultant profits itself or as a minimum reserve a proportion of the stock identified for sale to add to its portfolio of PRS stock.
- 2.3.8 The ultimate procurement route for the developer / constructor is one that will be kept under review taking into account market conditions, build costs and the council's risk appetite.

Current situation

Risk included on Directorate risk register? Yes

Separate risk register in place? Yes

Legal Implications

The Council has the power to acquire land, and interests in land, by agreement pursuant to section 120 of the Local Government Act 1972.

The Council has the power through various enactments to acquire land compulsorily. The power commonly used by local authorities is section 226(1)(a) of the Town and Country Planning Act 1990 (as amended). The section provides that a local authority shall, on being authorised to do so by the Secretary of State, have power to acquire compulsorily any land in their area if they are satisfied that the acquisition will facilitate the carrying out of development, redevelopment or improvement on or in relation to the land. However the power must not be exercised unless the authority thinks that the development is likely to contribute to the achievement of the economic, social and environmental well-being of the area.

The Secretary of State will only confirm the CPO if he is satisfied that there is a compelling case in the public interest to do so. Those who wish to object to the CPO may do so and are entitled to be heard at a public inquiry held to consider the case for, and the objections to, the CPO. Those whose land and interests are acquired will be entitled to compensation calculated on the basis of legislation and related case law known as the "CPO Compensation Code".

Consideration must also be given to the interference with rights protected by the Human Rights Act 1998, including Article 8 (respect for private and family life and home), and Article 1 (the right to peaceful enjoyment of possessions) of the European Convention on Human Rights. A decision to make a CPO must strike a fair balance between the public interest associated with the regeneration of the land and the interference with private rights.

Though the Council anticipates the willing co-operation of tenants living in Grange Farm Estate it may need to rely upon the Ground 10A provisions to obtain possession of the existing homes in order to enable the regeneration to proceed. Ground 10A permits a local authority to obtain possession orders to enable a redevelopment to proceed which has been approved by the Secretary of State in accordance with Part V of Schedule 2 (Part V) of the Housing Act 1985.

The Secretary of State will only provide his approval under Part V where the local authority serves written notice on the affected secure tenants stating:

- (a) the main features of the scheme;
- (b) that the local authority intends to apply to the Secretary of State for his approval of the scheme;
- (c) the legal effect of such approval in particular the ability of the local authority to rely on Ground 10A in possession proceedings.

Part V requires a local authority to allow the secure tenants to make representations to it about the proposal. The period for consultation must be no less than 28 days from the date of the notice provided to tenants.

Prior to making the application to the Secretary of State the local authority must consider the representations made to it by the secure tenants.

Part V consultation is expected to commence in the autumn of 2015. However, officers have been regularly consulting with the Grange Farm Steering Group and together with Council officers have consulted with residents at Public Open Meetings on scheme proposals and on the process to select an architect.

The Council will need to ensure that the appointment of any contractor or developer partner and other professionals in connection with the Grange Farm regeneration scheme is fully compliant with EU procurement rules and the council's contract procedure rules.

Financial Implications

In July 2014, Cabinet approved the following HRA budgets from within existing resources to enable the Grange Farm regeneration project to be taken forward:

	£,000
Provision of Consultants for a) overall scheme co-ordination and b) architects for Grange Farm Master Plan	1,000
Potential short term repurchase of former council units at Grange Farm	1,000
Establishment of delivery team to manage projects plus costs of meetings / publicity p.a.	100

Not all of the above budgets have been used.

As we now move on to develop the scheme, budgets need to be established for the delivery process.

A detailed business model has been created for this project. However until the detailed design is taken forward which will define the total number of new units, the number to be sold and up to date estimations of sales values, it is not possible to determine the final net cost of the scheme. The model currently forecasts a deficit which could range from £3.7m to £13.4m, as indicated in the July Cabinet report. While this range is currently considerable this is based upon a range of variables such as build costs, sale prices and unit numbers, any one of which can produce significant variation, and if all combined in a negative manner could produce the extreme result. As the scheme design progresses the objective will remain to achieve an outcome which delivers regeneration at no net cost to the council if at all possible; however, if necessary, HRA balances or other resources could be used to support the regeneration. Given the cost of retaining the stock and refurbishing it is in the order of £11m, the scheme looks capable of producing a positive contribution to the HRA.

The proposed budget requirement to allow the project to proceed with the submission of a Planning Application, appointment of construction partner and the acquisition of property is set out below.

Subject	Expenditure / Commitment	Revised Budget
Employers Agent	518,000	518,000
Architect	750,000 (estimate)	750,000
Leasehold repurchase	5,300,000	5,300,000
Miscellaneous surveys		
Freehold purchase	1,200,000	1,200,000
Disturbance and compensation payments	334,000	334,000
Total	8,102,000	8,102,000
Existing capital budget		2,000,000
Additional capital requirement – to be funded from HRA resources		6,102,000
Housing Association purchase	3,500,000	3,500,000
Potential land assembly		

Total additional capital requirement		9,602,000
Resident engagement and support	20,000	20,000 (revenue)
CPO Preparation		

It is clear from the above table that this project will require a significant financial input to assemble the whole site prior to the commencement of regeneration, and because of the inability to borrow within the Housing Revenue Account, it will not be possible for the development to be funded via the HRA. There a number of other capital projects currently underway within the HRA, including a programme of new build and a purchase and repair programme to acquire additional homes for long-term HRA use. The combination of these programmes means there are insufficient resources to fund the whole of the additional capital requirement set out above.

Due to the need to complete the repurchase of leasehold and freehold property as soon as is practicable, it is necessary to have in place the budget to cover the costs of repurchase. It is therefore proposed to prioritise this element of cost and to fund the purchase from existing HRA resources. This will require approval of an additional capital budget in the HRA of £6.102m, which will be funded from a combination of balances and other capital resources.

Further modelling is being carried out in respect of the purchase of the Housing Association properties, and the purchase of these will be the subject of a separate report with business case, but may well seek to finance the purchase via the General fund and/or in partnership with the developer once one has been appointed.

In terms of the development itself, further work is also being carried out in respect of delivery options to determine how the regeneration will be financed and to consider appropriate levels of risk-sharing during the development and sales processes, to try to balance the risk/reward equation for the Council.

Equalities implications / Public Sector Equality Duty

An Equalities Impact Assessment is still being developed and will be refined once the architect's designs are confirmed and the resident surveys completed.

Council Priorities

The Council's vision:

Working Together to Make a Difference for Harrow

The Homes for Harrow programme which includes the Grange Farm regeneration project will contribute positively to the Council's vision for Harrow Working Together to Make a Difference for Harrow and the Council's priorities in the following ways:

1. Making a difference for the vulnerable – building a range of new affordable homes including homes for those who are most in need.
2. Making a difference for communities – This work provides an opportunity to involve and engage residents on the Grange Farm estate and from the wider community in the development of new homes, the replacement of poor housing and improvements to the external environment.
3. Making a difference for families – Improving the worst social housing in Harrow and building homes to meet family needs. Other benefits flowing from the regeneration programme include the creation of apprenticeships, jobs and training opportunities to help those most in need, especially the young.

Section 3 - Statutory Officer Clearance

Name: Dave Roberts	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 4 June 2015		
Name: Ian Goldsmith	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 4 June 2015		

Ward Councillors notified:	YES , as it impacts on all Wards
EqIA carried out:	NO
EqIA cleared by:	An initial high level assessment identified no reasons to believe that there will be any significant adverse impacts. A full EqIA will be concluded once the resident survey relating to rehousing preferences has been completed.

Section 4 - Contact Details and Background Papers

Contact: Paul Mullins, Snr. Interim Special Projects Manager, 0208 8420 9680 paul.mullins@harrow.gov.uk

Background Papers:

Cabinet report 20 June 2013, Housing Business Plan 2013, consultation draft Asset Management Strategy, Proposals for a future Affordable Housing Programme, and Proposed Grants to Move scheme

<http://www.harrow.gov.uk/www2/documents/g61429/Public%20reports%20pack%20Thursday%2020-Jun-2013%2018.30%20Cabinet.pdf?T=10>

Cabinet report 10 April 2014 Affordable Housing Programme Update

<http://www.harrow.gov.uk/www2/documents/g61438/Public%20reports%20pack%20Thursday%2010-Apr-2014%2018.30%20Cabinet.pdf?T=10>

Cabinet report 17 July 2014 Homes for Harrow

<http://www.harrow.gov.uk/www2/documents/g62354/Public%20reports%20pack%20Thursday%2017-Jul-2014%2018.30%20Cabinet.pdf?T=10>

Cabinet report 15 January 2015 Grange Farm Regeneration Scheme

<http://www.harrow.gov.uk/www2/documents/g62359/Public%20reports%20pack%20Thursday%2015-Jan-2015%2018.30%20Cabinet.pdf?T=10>

**Call-In Waived by the
Chairman of Overview
and Scrutiny
Committee**

NOT APPLICABLE

[Call-in applies]