
REPORT FOR: CABINET

Date of Meeting:	24 May 2016
Subject:	Regeneration Programme 2016-2020
Key Decision:	Yes
Responsible Officer:	Paul Nichols, Divisional Director of Regeneration and Planning
Portfolio Holder:	Councillor Keith Ferry Deputy Leader of the Council, Business and Portfolio Holder for Business, Planning and Regeneration Councillor Sachin Shah, Portfolio Holder for Finance and Major Contracts
Exempt:	No, except for appendices 1 and 2 which are exempt under paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended) in that 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, except where the decision is reserved to Council
Wards affected:	All
Enclosures:	Appendix 1: Breakdown of regeneration budgets (Part II – Exempt) Appendix 2: Site Assembly (Part II – Exempt)

Section 1 – Summary and Recommendations

This report sets out a multi-year capital budget for the Harrow regeneration programme. It also requests authority for programme level procurement, appropriation of sites for planning purposes and site assembly.

Recommendations:

Cabinet is requested to:

- Approve expenditure against the 2016/17 regeneration capital budget of £16.655m approved by Council in February 2016 in line with the breakdown set out in Appendix 1.
- Approve the capital budgets for the regeneration programme in years 2017/18, 2018/19 and 2019/20 as set out in summary below and broken down in Appendix 1 in detail; and to recommend to full Council that the additional capital budgets for 2017/18, 2018/19 and 2019/20 be approved and added to the Capital Programme.
- Delegate the decision to enter into agreements for the provision of quantity surveying services, contractual advice and administration services and clerk of works services at a combined value of no more than £6m to the Chief Executive following consultation with the Portfolio Holder for Business, Planning and Regeneration, the Portfolio Holder for Community, Culture and Resident Engagement and the Portfolio Holder for Finance and Major Contracts.
- Delegate the decision to purchase land as set out in Appendix 2 to the Chief Executive following consultation with the Portfolio Holder for Business, Planning and Regeneration, the Portfolio Holder for Community, Culture and Resident Engagement and the Portfolio Holder for Finance and Major Contracts.
- Delegate the decision to appropriate the sites in the regeneration programme for planning purposes to the Chief Executive following consultation with the Portfolio Holder for Business, Planning and Regeneration, the Portfolio Holder for Community, Culture and Resident Engagement and the Portfolio Holder for Finance and Major Contracts.

Reason: To allow the Regeneration Programme to proceed in accordance with Council Strategy

2. Section 2 – Report

Introductory paragraph

- 2.1. The regeneration strategy is a key priority for the administration, and has a number of objectives, including:
- ‘Building a Better Harrow’ together, for today and for future generations.
 - Addressing housing need, particularly for affordable housing.
 - The Council developing its own land – to meet community needs and to make better use of its own assets.
 - A new initiative for the Council to build homes for private rent (in addition to social rent/affordable housing). There is a programme to develop about 600 new private rented sector (PRS) homes on Council land, for market rent.
 - Renewing civic and community facilities – meeting infrastructure needs: 2 new schools, a new Central Library, a new (more efficient and smaller) Civic Centre and – potentially - a new or improved Leisure Centre complex.
 - Creating quality places – both through a focus on quality design in new development and through schemes to create new public squares and spaces and to improve key links and routes (such as Station Road).
 - Getting maximum benefit for the local economy – through the creation of new employment space and measures to develop local apprenticeships and training schemes and to build local supply chains.
- 2.2. The strategy was agreed at Cabinet in December 2014 and further developed in September 2015. This paper represents the next stage in delivering the programme. It sets out a number of items which are needed to ensure progress.
- 2.3. The primary aim of the paper is to provide budgets for the procurement of consultants and contractors on a multi-year basis, as the projects which make up the programme run over these timescales. In order to achieve this, the budgets for the programme are set out in detail in Appendix 1. These are liable to change as schemes develop.
- 2.4. A subsidiary aim is to agree the acquisition of land required to deliver the programme. As such a decision is highly commercially sensitive, further details are in Appendix 2.

- 2.5. A further subsidiary aim is to make provision for future appropriation of sites in the regeneration programme for planning purposes. Councils have powers to appropriate land held by them for a specific purpose, engaging the power in the Town and Country Planning Act 1990 (s237), or other relevant legislation, to override easements and other rights that might otherwise impede the ability to develop the relevant land. This is a legal process to avoid the risk of future injunctions, which may delay the programme or create additional unnecessary expense when works are on site. The process can be beneficial in unlocking development value in local authority sites that are subject to a range of third party rights.

3. Options considered

- 3.1. The proposals set out in this report all stem from previously agreed strategies and recommendations. To not proceed with them would mean that the outcomes previously sought would not be achieved. See section 5 below for procurement options in respect of consultancy services.

4. Harrow Regeneration Programme: Costs and Benefits

Costs

- 4.1. The total regeneration expenditure in each of the years of the current MTFS period is shown in the table below. These figures represent the annual capital expenditure budgets required for the programme.

	2016/17	2017/18	2018/19	2019/20
Total expenditure	£16,655,000	£83,770,000	£114,450,000	£110,220,000

Due to the commercial sensitivity of this information these budgets are shown in more detail in Confidential Appendix 1.

- 4.2. The funding sources for the programme are set out in section 10 of this report, but in summary the programme is deliverable using the resources generated as a result of the change in methodology for calculation of Minimum Revenue Provision approved by Cabinet in December 2015. The majority of the programme will be funded from new borrowing, with the element relating to the major regeneration schemes being paid off from capital receipts by the end of the development period. The PRS element of the programme is expected to be funded from long-term debt, with the new net income from the rented properties being used to fund capital financing costs and ultimately produce an income stream for the council in line with the commercialisation agenda.

Benefits

- 4.3. Harrow's ambitious Regeneration Strategy focuses on driving forward and facilitating growth and investment, delivery of new homes and infrastructure, job creation and improved social and community

outcomes. The Strategy sets out a number of key developments that will enable the Council to deliver a programme of investment in Harrow using its own surplus land assets. In this way, the Council will deliver significant regeneration benefits whilst generating long-term income streams to reinvest in local services.

- 4.4. The Harrow regeneration programme is a once in a generation opportunity to make a real difference to the quality of life in the borough. The wider programme of Council and private investment will see some 5,500 new homes within the Heart of Harrow Opportunity Area and will provide a major impetus for business development, creating around 3,000 new jobs overall.
- 4.5. This is much more than a house-building programme, important though that is. Encouraging growth in the local economy is vital to offset some of the worst effects of the recent economic conditions and this is a principal objective of the regeneration programme. The regeneration strategy has been designed to ensure that local residents and local communities are the key beneficiaries, for example by: boosting the availability of fair and secure rentals in purpose built homes to meet the needs of 'generation rent' in Harrow; and by ensuring that local supply chains and local people benefit from business and employment opportunities throughout the delivery programme.
- 4.6. There will be a clear focus on the quality of place-making, with a sustained programme of improvements to Harrow town centre and Wealdstone district centre and an insistence on high quality architecture. This is alongside a programme of investment in social and community infrastructure as well as new and improved public spaces. The programme prioritises investment in social infrastructure such as health, schools, leisure and sports facilities and transport improvements.
- 4.7. Regeneration provides an ideal opportunity to meet the Council's priorities and make a difference for the vulnerable, Harrow's community, families, and local businesses, making Harrow a place where people want to live, work and play. The programme is being designed in partnership with local communities, both through the recently formed Residents Panel and through a programme of site by site engagement as individual proposals are developed.
- 4.8. The new Civic Centre in Wealdstone will form the hub of a wider package of regeneration initiatives designed to transform the economic performance and quality of life in this locality, helping Wealdstone to achieve its full potential. There is a focus on social and community provision, with major new facilities on the Wealdstone site and the existing Station Road site including a new primary school, a replacement library, extensive new workspace for small and growing local businesses, attractive new public spaces and streetscape improvements.
- 4.9. This is a major and ambitious regeneration programme, achieving a pace of development not seen in Harrow for many years. Over the next 12 months, design and planning work will be progressed on the major

sites, alongside intensive consultation and programme delivery. Construction of initial phases on a number of the major sites is scheduled for 2017-19 and planned development to achieve the later phases will continue until 2021/22.

5. Need for procurement of programme consultancy services

- 5.1. As the programme progresses there will be a need for consultancy services in the following specialisms across all projects:
 - Quantity surveying
 - Contractual advice and administration
 - Clerk of Works Services
- 5.2. In order to ensure consistency of approach, and to ensure that sufficient resource is available to deal with unforeseen circumstances, it is recommended that a programme-wide approach is taken in respect of procurement. The Council is establishing a construction delivery capability and, where practicable, staff will be recruited to provide these specialisms on a programme-wide level. Alternatively, where direct employment is not possible or appropriate, resources may be procured externally.
- 5.3. In relation to the cost of construction the value for these services is typically small – around 1% per service. However, if they are agglomerated across a programme with construction contract values in excess of £100m they will easily exceed the thresholds for Cabinet approval on an individual basis and a procurement strategy should be agreed to use resources more efficiently and avoid delay.
- 5.4. There are three routes to procuring these services:
 - A bespoke procurement with an advertisement in the Official Journal of the European Union (OJEU) in accordance with the Public Contracts Regulations 2015
 - The establishment of a new framework agreement specific to the programme (though it could be available to other departments and potentially other public authorities)
 - Use of an existing framework agreement
- 5.5. In respect of the first two options, these cannot be recommended when there is an existing framework agreement the Council can use and which meets the procurement need. In order to mitigate risk, reduce timeframes and save money, Harrow's procurement department recommends the use of accessible frameworks wherever possible.
- 5.6. There are a number of frameworks available to procure these services including the NHS LPP, NHS SBS, Camden Consultancy, Fusion 21 and ESPO. Following soft market testing a suitable framework will be selected for each service and procurement will proceed in accordance with council regulations.

- 5.7. At the current stage in the programme it is difficult to judge exact values but the total contract value for building works for the entire programme is in the region of £350m. The percentage rates for the above consultancy services are all below 1% of contract value but together result in a budgetary requirement of £6m, giving rise to a total expenditure on regeneration of £356m. This is the expenditure required for the entire programme, which extends beyond the four-year period of the MTFs set out in section 4.1 above.
- 5.8. For all the above procurements it is recommended that, having followed the relevant procurement route in accordance with Council procedures and policies, the decision to enter into a contract be delegated to the Chief Executive following consultation with the Portfolio Holder for Business, Planning and Regeneration, the Portfolio Holder for Community, Culture and Resident Engagement and the Portfolio Holder for Finance and Major Contracts.

6. Site assembly

- 6.1. Approval is required for the purchase of land in order to deliver the regeneration programme. The sites to be acquired and estimated costs are commercially sensitive and further details are provided in Appendix 2.
- 6.2. It is recommended that the decision to proceed with purchase of the site(s) in question be delegated to the Chief Executive following consultation with the Portfolio Holder for Business, Planning and Regeneration, the Portfolio Holder for Community, Culture and Resident Engagement and the Portfolio Holder for Finance and Major Contracts.

7. Appropriation of sites for planning purposes

- 7.1. The appropriation of sites for planning purposes is a power given to local authorities under section 232 of the Town and Country Planning Act 1990 and other relevant legislation. Appropriation allows the authority to override easements and other private rights when developing the sites and thereby avoid delays or stoppages due to the granting of injunctions. Those who would otherwise benefit from the relevant rights are still entitled to financial compensation.
- 7.2. It is recommended that the decision to appropriate the sites set out in Appendix 1 for planning purposes be delegated to the Chief Executive following consultation with the Portfolio Holder for Business, Planning and Regeneration, the Portfolio Holder for Community, Culture and Resident Engagement and the Portfolio Holder for Finance and Major Contracts.

8. Risk Management Implications

- 8.1. Risk included on Directorate risk register? Yes

8.2. Separate risk register in place? Yes

8.3. Procurement Risk

In respect of contractors, that there is insufficient at an affordable price level

In respect of develop partners, that the relevant sites do not represent sufficiently profitable commercial opportunities

Mitigation: early engagement with contractors and developers has already begun and will continue. Early signs are that there is considerable interest, both from contractors and developers, in the opportunity that the Harrow regeneration programme represents.

8.4. Financial Risk

That the programme will be unaffordable

Mitigations:

There is currently a 25% contingency in respect of MRP and interest payments during the development period

The tenure of housing will be varied as each project proceeds through the planning process to ensure that schemes are viable.

Borrowing strategies are being developed which should enable interest rates to be controlled, including structuring new borrowing with a mix of maturities, such as short-term borrowing (e.g. 3/5/7 year loans) over the development period to enable the Council to access the cheaper rates currently available for these maturities and long term borrowing once the PRS becomes operational.

Discussions are underway with the European Investment Bank to secure cheaper borrowing – rates as at December 2015 were at 2.3% In extremis elements of the programme can be delayed or deferred to reduce peak debt.

8.5. Market Risk

That the housing produced by the programme does not meet the need of the Harrow market and is therefore unprofitable or impacts in other ways on the council's financial position

Mitigation – rent levels and tenure mix will remain flexible throughout the programme to reflect the council's best interests.

8.6. Resource & Capacity Risk

That insufficient internal resources are available to procure, manage and deliver the projects within the programme.

Mitigation – the delivery team is well established and the procurement of programme – level advisors will add further sector expertise to the team.

8.7. Reputational Risk

That the council suffers reputational damage due to a perception that, in acting commercially, it is disadvantaging local residents

Mitigation – careful establishment and management of the message that the successful execution of the regeneration programme will provide long-term benefits for all Harrow residents

8.8. Legislative Risk

That changes in statute or regulations change or limit the ability of the regeneration programme to achieve its objectives

Mitigation – advice is procured and updated throughout the development programme to ensure that any changes in legislation are reflected in the briefs for the individual projects.

9. Legal Implications

The council can access lawfully procured Framework Agreements and call-off contracts where the services to be procured are within scope, the council is named as a potential call-off party and the value of the services to be called off are within the estimated Framework call-off contract value.

Legal Services should be instructed to complete the call-off contracts.

10. Financial Implications

10.1. The Council's financial model for the regeneration programme has been updated to reflect changes in costs and values since it was first generated in early 2015 and to ensure that the broad aims of the programme could be met in financial terms.

10.2. The regeneration model has been updated to reflect increased build costs and sales/rental values. The updated model demonstrates that a 'cost-neutral' position has been maintained. Financial returns from the programme will be maximised by careful management of delivery routes, adoption of the optimal funding strategy and the generation of capital receipts at appropriate points in the delivery programme..

10.3. The financial model will be subject to further revision to allow for dynamic modelling, both of individual sites and the programme as a whole. This will allow up-to-date economic data to rapidly inform design decisions and will ensure that projects remain financially viable as they develop.

10.4. A detailed breakdown of budget allocations is in Appendix 1 but overall expenditure is as follows:

	2016/17	2017/18	2018/19	2019/20
Total expenditure	£16,655,000	£83,770,000	£114,450,000	£110,220,000
Less: previously budgeted	£16,655,000	£24,325,000	£250,000	Nil
Additional budget required	Nil	£59,445,000	£114,200,000	£110,200,000

10.5. Expenditure requirements over the period 2017-20 are estimated at £325m, to be funded through a combination of land receipts and new borrowing. Of this amount, £24m was approved by Council in February 2016, meaning that an increase in the Capital budget of £301m will be required to deliver the programme as set out in Appendix 1. The total cost of the regeneration programme is anticipated to be in the region of £356m over the period 2016/17 to 2021/22, with land receipts in the region of £110m being generated to help fund the works costs.

The Council has submitted an application to the European Investment Bank regarding the possibility of accessing funds, on highly favourable terms, but at present it has been conservatively assumed that the Public Works Loans Board would be used as the source of new long-term borrowing. The regeneration model calculates the interest and Minimum Revenue Provision required on the total borrowing, and has an affordability test built in to compare the cumulative cost of the combined interest and MRP charges to the resources projected to be available following approval of the revised methodology for calculating Minimum Revenue Provision by Cabinet in December 2015. The calculations within the model are summarised in Appendix 1, and indicate that the programme outlined above can be funded from within these resources until such time as sufficient net income is generated from the Council's portfolio of new Private Rented Sector housing being developed as part of the Regeneration programme.

11. Equalities implications

11.1. As stated to Cabinet in September 2015 an initial draft equalities impact assessment has been undertaken on the Regeneration Strategy. This draft EqIA has not identified any potential for unlawful conduct or disproportionate impact and all opportunities to advance equality are being addressed. The initial assessment will be kept under review in light of consultation responses and any additional implications reported back to cabinet with the final strategy and as sites come forward. Full EqIAs will be carried out for each of the development sites once procurement commences.

11.2. The first of the EqIAs relating to the individual sites has been completed, for Haslam House, in accordance with Council procedures

12. Council Priorities

The Council's vision:

Working Together to Make a Difference for Harrow

Please identify how the report incorporates the administration's priorities.

Building a Better Harrow

The Council's regeneration programme for the delivery of new homes, creation of new jobs, commercial workspaces and high quality town centres will create the places and opportunities that residents deserve and make a difference to the borough and to residents' health and quality of life.

Protecting the Most Vulnerable and Supporting Families

The Council's aim is to make sure that those least able to look after themselves are properly cared for, safeguarded from abuse and neglect and given access to opportunities to improve their quality of life, health and well-being.

Being more Business-like and Business Friendly

The Council aims to support local businesses and enable them to benefit from local economic growth, develop its own commercial ventures and help residents gain new skills to improve employment opportunities.

12.1. Through regeneration we will deliver the Council's aim to make a difference for:

- Communities, by providing new homes and jobs, vibrant town centres and an enhanced transport infrastructure and energy network;
- Business, by providing new commercial workspace, support to access markets, advice and finance;
- Vulnerable residents, by providing access to opportunities, reducing fuel poverty and designing out crime; and
- Families, by providing new family homes, expanded schools and renewing Harrow's estates.

12.2. The goals of Harrow's Regeneration Strategy are to:

- Meet the demands of a growing population
- Build on the skills base of Harrow's residents to support sustainable business growth
- Deliver more jobs and homes to meet targets agreed with the Mayor
- Increase Harrow's accessibility to an increasing customer base
- Provide an environment which promotes physical activity and healthy living
- Achieve a step change in the quality of design and development

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 12 May 2016		
Name: Stephen Dorrian	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 17 April 2016		

Ward Councillors notified:	NO as it impacts on all Wards
EqIA carried out:	NO Please see 11 above

Section 4 - Contact Details and Background Papers

Contact: Peter Wright, Interim Programme Manager,
peter.wright@harrow.gov.uk, 07734 695 682

Background Papers: None

Call-In Waived by the Chairman of Overview and Scrutiny Committee	NOT APPLICABLE <i>[Call-in applies, except where the decision is reserved to Council]</i>
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