
REPORT FOR: CABINET

Date of Meeting:	19 January 2017
Subject:	Regeneration Finance
Key Decision:	Yes
Responsible Officer:	Paul Nichols, Divisional Director of Regeneration and Planning
Portfolio Holder:	Councillor Keith Ferry, Deputy Leader of the Council and Portfolio Holder for Business, Planning and Regeneration Councillor Adam Swersky, Portfolio Holder for Finance and Commercialisation
Exempt:	No, except for Appendices 1,2 and 3, which are exempt on the grounds that they contain “exempt information” under paragraph 3 of Part I of Schedule 12A to the Local Government Act 1972 (as amended) in that they contain 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:	All
Enclosures:	Appendix 1- Programme Budget Breakdown (Exempt – Part II) Appendix 2 – Poets’ Corner, Business Case, Phase I (Exempt – Part II) Appendix 3 – Construction Works for Vaughan Road Project (Exempt – Part II)

Section 1 – Summary and Recommendations

This report sets out revised scope and budget for the Harrow Regeneration Programme. It recommends approval for changes since the last report to Cabinet since May and that decisions relating to procurement are delegated to officers and portfolio holders as appropriate.

Recommendations:

Cabinet is requested to:

1. Approve the overall budget for the programme as set out in the Financial Implications section below
2. Agree the increase in size of one of the key projects as set out in Confidential Appendix 2
3. Agree the changes to the programme, including reallocation of budgets and revised profile of spend, set out in Confidential Appendix 1
4. Delegate authority to the Chief Executive, following consultation with the Portfolio Holder for Business, Planning and Regeneration and the Director of Finance and Director of Legal and Governance, to enter into agreements for the delivery of the works subject to a total construction contract value as set out in confidential appendix 3

Reason:

That the Regeneration Programme approved at Cabinet in December 14, September 15 and May 16 can continue to be delivered.

Section 2 – Report

2. Introduction

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 Build-to-

Rent programme to develop about 600 new private rented sector (PRS) homes on Council land, for market rent.

- Renewing civic, cultural and community facilities – meeting infrastructure needs: 2 new schools, a new Central Library and a new (more efficient and smaller) Civic Centre.; and improved cultural and leisure provision. 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. Programme level funding was agreed in May 2016. This paper seeks approval for updated programme level funding, based on scheme development work through 2016.
- 2.3. Approval is also sought for expenditure against the 2017/18 budget of £46m in line with the breakdown set out in Confidential Appendix 1.
- 2.4. To bring the Regeneration Programme into line with other Council capital programmes Cabinet will now be updated on progress on a quarterly basis and any change which requires Cabinet approval will be explained and requested.
- 2.5. **Options considered:** 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.

Summary of changes to the regeneration programme funding profile

- 2.6. The financial model for the programme has been revised, allowing for more detailed cost plans to be modelled at a project level to generate a robust set of figures for the programme as a whole. Individual projects have been developed in further detail as design work has progressed, construction costs updated in the light of more recent data and sales and rental values updated. The combined effect of these changes has been to considerably increase the efficiency of the programme, both in capital and revenue terms.
- 2.7. The accounting treatment of the programme has altered significantly. Previously, interest on the cost of construction had to be covered by revenue generated elsewhere in the Council; given the current pressure on revenue funding this severely limited the extent of the programme.

On further examination of the accounting rules for capital investment, and following advice from the Council's Treasury Consultants, it is now clear that the Council has the option of capitalising the cost of interest until the completed assets became operational (ie that completed residential units became available either for rent or sale as appropriate). This approach allows the Council to use revenue resources which were earmarked for the Regeneration Programme to reduce revenue pressure elsewhere, supporting Council services.

- 2.8. Additional work has been undertaken to refine the treatment of affordable housing across the variety of tenures in the regeneration programme. Taking account of the Mayor's intention to increase the levels of affordable housing delivery across London, schemes have been reviewed to improve the level of affordable provision, subject to programme viability constraints.

Implications of the Recommendations

Costs

- 2.9. Total expenditure on the programme reduces from £357m to £349m.
- 2.10. Retained debt at the end of the programme is at £241m, compared to £247m in May's Cabinet report. The cost of servicing retained debt is fully covered by the rental income from the programme, which also yields a net financial return for the Council

Benefits

- 2.11. Total capital receipts are estimated at £108m as against £110m in May's Cabinet report
- 2.12. Revenue in the first full year of operation is at £2.9m as against £1.7m in May's Cabinet report

Risk Management Implications

Risk included on Directorate risk register? Yes
Separate risk register in place? Yes

- 2.13. Procurement Risk

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

2.14. Financial Risk

That the programme will be unaffordable

Mitigations:

Changes to the accounting treatment of the programme mean that there is very little revenue risk 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 private rented sector units become operational.

Discussions are underway with organisations who may wish to partner with the Council, and take some of the profit from the programme in return for indemnifying against some financial risks.

In extremis elements of the programme can be delayed or deferred to reduce peak debt.

2.15. 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.

2.16. Resource & Capacity Risk

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

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

2.17. 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.

2.18. 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.

Legal Implications

All project spend and financial accounting must be in accordance with local government financial legislation and all procurement must be done in accordance with public procurement legislation.

The council must also comply with the council's own internal financial and contract procedure and other relevant rules that apply to project activity

Financial Implications

The Capital budget for the Council's regeneration programme was agreed by Cabinet in May 2016. At the time the budget was agreed, it was indicated that a great deal of work was still required to develop the individual scheme elements of the overall programme, and that it would be necessary to return to Cabinet to seek approval for any significant changes to the original approved programme. Work has been progressing since that point, and the proposals in this report represent the current thinking around the delivery of the regeneration programme.

As was also indicated at the time of the last report, the model used to produce the costs associated with the programme, to calculate the receipts likely to be generated to help fund the programme, and to assess the revenue implications of the regeneration activity was also to be reviewed. This has now been completed, and the financial information contained within this report has been generated using the new models, which have enabled the individual schemes to be modelled in more detail and the likely revenue implications of the overall programme to be assessed more accurately.

The current programme is not significantly different from the previous one in overall financial terms, but as outlined in 2.4 above there are some headline changes to the programme:

- An increase in size of the first phase of works on one of the key sites, resulting in an increase in construction costs for this scheme.
- Switching one of the sites from direct delivery to developer led, meaning a reduction in scheme costs borne by the Council
- Deferring two of the smaller schemes, with the direct delivery costs being removed from the model.

Overall, this has had a broadly neutral impact on the overall net cost of the regeneration activity.

The updated model demonstrates that a 'cost-neutral' position has been maintained.

Dependent on the outcome of the detailed scheme modelling still being undertaken and feasibility/design work on individual sites, as well as discussions around risks v. rewards of the various options being considered, it is likely that the financial model will be subject to further revision over the coming months. Discussions around funding strategies may also impact on the overall model, and the strategy selected will be carefully considered in consultation with the Council's external treasury advisors to ensure it best meets the needs of the programme and delivers the optimum outcomes for the Council.

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

	2017/18	2018/19	2019/20
Total Expenditure	£46,129,847	£197,870,141	£81,637,958
Previous budget	£83,770,000	£114,450,000	£110,220,000
Variation	-£37,640,153	+£83,420,141	-£28,582,042

Expenditure requirements over the period to 2019/20 are estimated at £325m, to be funded through a combination of land receipts and new borrowing. The total cost of the regeneration programme is currently anticipated to be in the region of £349m over the period 2016/17 to 2021/22, with land receipts in the region of £108m being generated to help fund the works costs.

The Council is in the process of discussing appropriate funding strategies with its treasury advisors, and it is likely that a strategy will have been agreed and put in place by summer 2017, by which time the overall programme and delivery methodologies are expected to be sufficiently developed so as to not change significantly. For the purposes of the current modelling, however, 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 over the development period, and the interest and Minimum Revenue Provision required to be made on the long-term operational borrowing. The model has an affordability test built in to compare the revenue costs associated with the regeneration programme, which includes 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.

Equalities implications / Public Sector Equality Duty

2.19. 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 as sites come forward. Full EqIAs will be carried out for each of the development sites once procurement commences.

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

Council 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.

2.21. 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.

2.22. 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: Dave Roberts	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 22 December 2016		
Name: Stephen Dorrian	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 4 January 2017		

Ward Councillors notified:	NO, as it impacts on all Wards
EqIA carried out:	NO
EqIA cleared by:	Please see 2.15 above

Section 4 - Contact Details and Background Papers

Contact: Peter Wright, Tel: 020 8424 1519 (Int Ext 2519)
peter.wright@harrow.gov.uk

Background Papers: None.

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

NOT APPLICABLE

[Call-in applies]