
REPORT FOR: CABINET

Date of Meeting:	23 May 2017
Subject:	Regeneration Programme Quarterly Update and Programme Procurement
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 1,2,3 which 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 – Contractor Procurement Strategy – Exempt (Part II) Appendix 2 – Finance and Market Update – Exempt (Part II) Appendix 3 – Programme Risk Register – Exempt (Part II)

Section 1 – Summary and Recommendations

This report provides a quarterly update to Cabinet on the progress of Harrow's regeneration programme. It also seeks approval to the proposed procurement path on a number of major schemes within the regeneration programme: Poets Corner phase 1; Byron Quarter phase 1 and the new Civic Centre.

Recommendations:

Cabinet is requested to:

1. Note this update on the progress of the regeneration programme.
2. Authorise the commencement of procurement for pre-construction services for Poets Corner (Phase 1), Byron Quarter (Phase 1) and the new Civic Centre. If viability criteria are met at the appropriate time, entry into any construction contract and the associated construction programme will be subject to further Cabinet approval.
3. Delegate authority to the Chief Executive, following consultation with the Portfolio Holder for Business, Planning and Regeneration, Portfolio Holder for Finance and Commercialisation, Director of Finance and Director of Legal and Governance, to:
 - take all necessary steps, acting in the best interests of the Council, to progress the procurement activities set out at recommendation 2 above; and
 - enter into pre-construction agreements for Poets Corner Phase 1, Byron Quarter Phase 1 and the New Civic, subject to a total contract value not greater than £3m.
4. Note the commercial and financial review of the regeneration programme as set out in Part 5 of this report and its potential implications on the delivery of the regeneration programme. The outcome of this review will be reported to Cabinet in September 2017.

Reason:

That the Regeneration Strategy approved at Cabinet in December 2014, September 2015 and May 2016 can continue to be delivered.

Section 2 – Report

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 and meeting infrastructure needs through the provision of: 2 new schools, a new Central Library and a new (more efficient and smaller) Civic Centre, together with 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 and revised at Cabinet in January 2017.
- 2.3. The programme is required to report on progress to Cabinet on a quarterly basis, as agreed in January 2017. This is the first of those reports; the next will follow in September 2017.

Options considered: The options considered for the two procurement process are set out respectively at paragraphs 4.14 – 4.19 below.

3. Regeneration Programme Implementation

- 3.1. The programme comprises 9 sites, together with the district heating programme currently in feasibility. It is currently envisaged that the initial phases of works will largely be directly delivered by the Council and will produce around 600 units of private rented housing, together with a New Civic Centre for Harrow. It is envisaged that the later phases will be delivered in concert with development partners and will produce affordable housing, workspace and commercial facilities, plus housing for market sale. Subject to agreement on a funding and affordability, a new or remodelled leisure centre may also be delivered at Byron Quarter.
- 3.2. Poets' Corner – The flagship project in Harrow's regeneration programme, the site is currently the civic centre and offices for Harrow Council. The project involves the delivery of about 850 homes (including at least 200 build-to-rent units to be retained by the Council), a new school, commercial and community space and high quality public realm. Contracts have been exchanged for the purchase of the Wealdstone Social Club. Also, the negotiations with the GLA on the Housing Zone funding for Poets' Corner are at an advanced stage. Following extensive consultation, the RIBA Stage 2 (Concept Design) report is being prepared as well as detailed proposals and order of cost for three plots. The target Planning submission date is July 2017, for a hybrid application to approve the masterplan and detailed proposals for phase 1.
- 3.3. New Civic 'the Wealdstone Project' – A new home for the Council is being planned for Wealdstone. The new, smaller home will be more efficient to run as well as delivering necessary services, housing and affordable workspace and improved public realm. Design and consultation is currently in progress. The RIBA Stage 2 (Concept Design) report is due for completion in May 2017, with a planning application to follow later in the summer.
- 3.4. Byron Quarter – the project will provide a mix of housing types and tenures, including Council-owned build-to-rent and affordable. The RIBA Stage 2 (Concept Design) report is due in May 2017. A business case is under review for Phase 2, which would include new and improved public space of community events and indoor/outdoor recreation and sport. This will be subject to Cabinet decision later in the year. A planning application for the first phase is scheduled for autumn 2017.
- 3.5. Greenhill Way – A feasibility study has being produced showing options around high quality commercial and residential development including homes, offices, retail, hotel and leisure uses. Soft-market testing is underway. Developer/architect teams are being engaged in the run up

to the formal procurement of a development partner, in order to test the feasibility study and Council's development brief.

- 3.6. Haslam House – pilot project. Nine units of Council-owned build to rent accommodation. Following a public engagement programme, and revisions to the initial scheme, planning approval was secured in September 2016. A contractor has been appointed and Haslam House demolished. Work has started on site and is due to complete by the end of 2017.
- 3.7. Vaughan Road – current design includes for 32 units of Council-owned build to rent accommodation. An extensive public engagement programme has recently been completed. The Planning application is due to be submitted in May 2017. Work is due to start on site in Autumn 2017 and complete by early 2019.
- 3.8. Waxwell Lane – Residential development on the Waxwell Lane car park site. Following an extensive consultation programme, an options paper and RIBA Stage 2 (Concept Design) Report is due imminently. A final consultation event is planned for June 2017, to present the scheme and a report on impact mitigation as well as local and wider placeshaping objectives offered by the project. The preferred option will be confirmed at this point.
- 3.9. Roxeth Library – aims to provide an improved library facility along with residential development. A feasibility review is in progress and an options paper is being prepared to scope what is possible within the recently notified MOD height limit for this site.
- 3.10. Gayton Road – This is a scheme of 358 units which is being delivered by Fairview Homes and will deliver 72 affordable homes and 53 build-to-rent homes to the Council through a development agreement. Construction is approximately 4 weeks ahead of schedule and no areas of delay have been reported.
- 3.11. District Heating Network – Following completion of the Energy Master Plan, a detailed feasibility study is now underway to establish the best method to deliver heat to the major regeneration sites. This includes an evaluation of the best location for energy centre(s) to deliver combined heat and power. Financial viability for an integrated network to serve a number of sites is being established. Match funding is available from central government for this project but no decision will be taken on whether or not to proceed until viability is established. Related projects all have alternative energy strategies should the integrated network not proceed.

4. Pre-Construction Services Procurement

- 4.1. There are currently three substantial components in the programme for which the Council will retain ownership of all or most of the completed buildings. These are Byron Quarter Phase 1, Poets' Corner Phase 1 and the new Civic Centre. The rationale for Council ownership is that

these phases contain the bulk of the Council's planned build-to-rent portfolio, as well as the new Civic Centre campus, which it is currently planned should remain in Council ownership.

- 4.2. Byron Quarter Phase 1 will generate around 200 units of housing on a currently vacant site next to Harrow Leisure Centre.
- 4.3. Poets' Corner Phase 1 will generate around 350 units of housing, in accordance with the Cabinet Report approved in January 2017.
- 4.4. The 'Wealdstone Project' (New Civic Centre) will generate a new home for the Council, together with workspace and housing.
- 4.5. For these projects, the financial model which underpins the programme has been developed on the basis of the Council directly delivering these projects and then holding the completed schemes in its wholly owned subsidiary Concilium. In order to progress delivery and mitigate risks, it is necessary at this stage to procure the relevant pre-construction services from a potential contractor, in order to define the detailed contractual arrangements and project costs.
- 4.6. The Council has set up an internal unit within Harrow Regeneration Team to manage construction delivery. This team has grown from the success of the People's Capital Delivery team, who have significant direct delivery experience. The transfer of skills is successfully blending with the existing Regeneration Team and external advisors such as Lambert Smith Hampton (Commercial and Property Advisors) to support a fuller understanding of each aspect of the projects from early design development stage through to construction delivery on site. The project governance arrangements include the Operations Board, which is scrutinising the regeneration programme at project level reviewing programme, design, quality, buildability, financial viability, proposed tenure, risk, issues and project interdependencies. This is to ensure a consistent strategic approach across the programme and to support the direct delivery of the Phase 1 projects.
- 4.7. There are a number of frameworks available to procure construction services including the Scape Framework, Hyde Housing Framework & the Southern Construction Framework. Following further soft market testing a suitable framework will be selected and procurement will proceed in accordance with the Council's Gateway and public procurement processes.
- 4.8. A two stage tender process will be used for this contract. The initial tender will be for a pre-construction services agreement (PCSA) which is effectively a consultancy agreement with a contractor.
- 4.9. Under the PCSA, the contractor will work with the Council and existing design teams to advise on buildability and cost.

- 4.10. There is no commitment to any level of expenditure on entry into the PCSA. It is a consultancy agreement and can therefore be terminated at any point given reasonable notice (usually 30 days).
- 4.11. Once between 80 and 90% of the prices for subcontractor packages have been agreed, then a decision on whether or not to enter into a construction contract will be brought back to Cabinet for approval.
- 4.12. This process minimises risk to the Council in relation to any subsequent building contracts. The design and the price for the works will be fixed prior to entry into contract. There is likely to be some residual risk in relation to factors such as site conditions and extreme weather, but an allowance will be made for this when establishing whether or not the budget for the works is sufficient and whether or not the resulting scheme will be financially viable.
- 4.13. The tender for the contractor will be carried out using the Council's e-procurement system following the procedures of the selected framework and in accordance with the Council's procurement procedures.

Options Considered

Strategic

- 4.14. The Council's Regeneration Strategy, which went to Cabinet in December 2014, set out the intention to deliver a programme of up to 600 private rented sector (PRS) homes to be held and managed by an arms length, Council owned company. This would enable the Council to secure a long-term income from these assets, whilst securing a range of positive regeneration outcomes. These homes form around one third of the 2,000 homes to be delivered on Council land as part of the overall Regeneration Strategy.
- 4.15. Land sales have been considered as an option for progressing the implementation of the Regeneration Strategy, but not on the land required for the 600 build-to-rent (PRS) homes. This is because the approved strategy is clearly predicated on the Council's retention of land ownership for the build to rent portions of the programme to be delivered in the early phases.
- 4.16. Selling the land required for the PRS programme would not provide capacity for a Council-owned PRS (Private Rented Sector) venture as required by the adopted Regeneration Strategy. There would be limited control over the engagement of local suppliers and the local supply chain in any subsequent development. The impact of the sale of land on revenue budgets is also questionable; while some Council debt could be paid down, this debt is held at low interest rates and the potential for a long-term and growing income stream from a retained Council asset would be lost.

- 4.17. A joint venture partnership with a developer, whereby the Council provides the land and a private sector investor or developer provides some or all of the capital required, has also been considered as an option. This could achieve some of the Regeneration Strategy outcomes, but would involve a loss of a proportion of the modelled returns from the completed development. The anticipated level of financial return (as incorporated into the Council's medium term financial strategy) would not be achievable from the proposed programme of around 600 PRS units, due to the need to share profits with the joint venture partner. In addition, a partnership arrangement of this nature would dilute the Council's control over the design and management of the new rental homes and the inclusion of affordable (discounted market rent) homes within the project.
- 4.18. The medium term financial strategy requires that £2.3m per year in revenue is produced by the Regeneration programme. The current financial model shows that this is produced by the programme in the first full year of letting. However, any sharing of profit with a developer partner would reduce the revenue generated to below the level required, resulting in savings having to be made elsewhere in the Council.

Procurement

4.19. There are three routes to procuring these works:

- A bespoke procurement with an advertisement in the Official Journal of the European Union (OJEU) in accordance with the Public Contracts Regulations 2015 and the Concession Contract Regulations 2016;
- The establishment of a new framework agreement specific to the programme (though it could be available to other departments and potentially other public authorities); and
- Use of an existing framework agreement.

4.20. In respect of the first two options, these are not 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.

Implications of the Recommendation

4.21. As the pre-construction service agreement is for services only, there is no fixed financial commitment at the point of entry. The level of cost is dependent on the level of contractor involvement required on the particular project. A maximum value of £1million per contract allows for a considerable level of risk, should redesign be required due to unforeseen circumstances such as a substantial shift in the wider economic context. The pre-construction services contract will allow for termination at any point, should the Council choose not to proceed.

- 4.22. There is no commitment at the point of entry into the pre-construction agreement to move forward with any construction contract.
- 4.23. Once the design has been completed to the point where sub-contract packages can be tendered, a contract price is agreed. Assuming that the relevant project and the programme within which it sits meets the Council's commercial requirements, Cabinet approval will be sought as required under the Council's Contract Procedure Rules for entry into contract.
- 4.24. At this point, once a defined cost for the project with an allowance for risk is known the viability of the scheme can be assessed, a final decision can be taken on whether to proceed with the contract.

5. Commercial and Financial Review

- 5.1. Implementation of the Council's Regeneration Strategy has advanced and developed significantly over the past two years and the Council is approaching the stage where it will have to commit further significant financial sums to sustain delivery.
- 5.2. The Council has currently designated sites for development by the market and certain sites for development by itself. For the sites that the Council wishes to develop itself it wants to assume a full risk and reward position and to develop those sites through a contractor partner rather than a developer partner. As a consequence, the Council will carry increased risks for the design and commercial performance of the scheme, although it will of course capture an increased economic reward. This is however a new business model for the Council.
- 5.3. In line with the budget approved in January 2017, total Regeneration expenditure, funded by prudential borrowing, is £349m over the 6 year period 2016/17 to 2021/22. After accounting for capital receipts of £108m, expenditure is reduced to £240m. Peak debt of £344m is reached by 2019/20, with the majority of the capital receipts also received in this year.
- 5.4. Given the above, and the fact that the Council is at a key milestone in relation to the regeneration programme, it is proposed to conduct a comprehensive Commercial and Financial Review to build on the significant work that has already been undertaken in this regard. The objective of the review will be to enhance management of risk and commercial performance, where possible, whilst providing confidence that the debt funding for the programme can be obtained and sustainably managed.
- 5.5. The review will be undertaken jointly by officers from Regeneration, Finance and Legal with external expertise and input as required. The scope of the review will be agreed between Finance and Regeneration and it is envisaged will include a review of the phasing and sequencing of the programme, determination of the debt financing strategy to enable

the regeneration programme to proceed and a review of the commercial structure in which the regeneration activity will occur.

- 5.6. The review will examine whether there are areas where risk can be reduced and where commercial activity can work more effectively without reducing the Council's reward from the programme. Given that the Council is also at the stage where it will be looking to raise the debt funding for the regeneration programme, the structure and phasing implications on the debt funding strategy will also be jointly considered and determined.
- 5.7. The Council's Section 151 Officer will then have the report and its recommendations externally reviewed by a suitably qualified body, such as CIPFA, who will further conduct sensitivity analysis on the financial components of the report. The report of the Commercial and Financial Review, together with the findings of the external body will be presented to Cabinet in September.

6. Risk Management Implications

The programme level risk register is attached as Appendix 3. This is a brief composite summary of the main risks emerging from individual project-level risk registers. Please note the register is a live document, linked to individual project registers and this version presents the current moment in time of the programme. The following commentary should be read in conjunction with the risk register.

6.1. Overall Risk

It should be borne in mind that, apart from the costs relating to procurement and legal agreement in respect of a joint venture partner, this report is requesting approval to commence procurement activities. The engagement of commercial and development partners at an early stage in the programme will serve to reduce risk by ensuring that the outputs of any contract entered into are tested in the relevant markets and are as certain as possible before any commitment is made. These procurements will be conducted in accordance with the Council's procurement procedures, including designated gateway approval processes. The output of these activities (ie approval to enter into contract) will then be the subject of later Cabinet decisions.

6.2. 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 opportunities that the Harrow regeneration programme provides.

6.3. Financial Risk

That the programme will be unaffordable.

Mitigations:

With the accounting treatment proposed for the programme, there is limited revenue risk during the development period.

Borrowing strategies are being developed which will 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.

The use of two-stage tendering also provides a mitigation to financial risk as the Council will be presented with prices for the sub-contract packages which make up the works on each project following tendering by the main contractor to its supply chain. At this point the results of the tenders can be interrogated by the Council and its consultants to ensure that they present value for money. If, on analysis, the cost of a project is above the level whereby it is viable in terms of the overall financial model for the programme, a process of redesign and value engineering can be undertaken to reduce the cost. This latter element is not possible using other tender routes in the public sector and is one reason why two-stage tendering is the preferred method for procuring works.

Programme governance arrangements, through the Regeneration Operations Board and Programme Board, also incorporate systematic reviews of project finances and viability at key milestones.

The Commercial and Financial review should further reduce the risk profile of the programme and highlight any areas that could threaten the programme's affordability. It will also identify potential actions to mitigate and resolve these risks.

6.4. 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 – Programme content and scheme designs are being developed in the light of specialist market reports and financial appraisals. Rent levels and tenure mix will be adjusted and finalized as the programme is developed in further detail, to reflect the Council's best interests and to ensure that schemes are financially viable.

6.5. 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 already well established and further appointments will be made as on-site programme activity intensifies. The incorporation of programme – level advisors in specific technical areas such as cost consultancy is adding further sector expertise to the team. A review of resource requirements for project implementation is currently in progress.

6.6. Reputational Risk

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

Mitigation – The programme is being carefully designed to target local housing needs and to incorporate both a range of affordable housing products and market housing geared to local requirements, in addition to a range of social and community infrastructure. An intensive engagement and communication programme is in place to help to ensure that the regeneration programme will provide long-term benefits for all Harrow residents.

6.7. 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.

7. Legal Implications

The Council has a range of powers to enter into the contractual arrangements arising from the procurements authorised by this report, including the general power of competence under Section 1 of the Localism Act 2011 to do anything that individuals can do subject to any specific restrictions contained in legislation. The Council also has the power to dispose of land in accordance with Section 123 of the Local Government Act 1972 subject to obtaining all appropriate consents and approvals and ensuring that any disposals are for a consideration that is the best that can reasonably be obtained.

The procurement of contractors for the direct delivery of works will be undertaken in compliance with the Public Contracts Regulations 2015.

8. Financial Implications

Cabinet approved the Regeneration Programme Budget in January 2017 and this was incorporated into the Council's three year Medium Financial Strategy approved by Council in February 2017. Budget assurance will be considered as part of the Commercial and Financial Review.

The cost of the pre-construction services procurement is estimated at up to £1m per site therefore £3m in total, funded from the Regeneration Programme Budget.

It should be recognised that the pre-construction services procurement work to be undertaken may well result in changes to the overall cost levels from those approved by Cabinet. Any significant variations in the programme and / or the cost of the programme will be reported to Cabinet for discussion and approval once they become apparent, and prior to commencement of subsequent phases of the respective projects. Once the pre-construction work is completed, the decision on whether or not to enter into a construction contract will be brought back to Cabinet for approval before any commitment of further expenditure.

The Finance and Commercial Review has been explained in detail in section 5 and the results of this work will be brought back to Cabinet in September 2017.

9. Equalities implications / Public Sector Equality Duty

- 9.1. 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 as sites come forward. Full EqIAs will be carried out for each of the development sites once procurement commences.
- 9.2. The first of the EqIAs relating to the individual sites has been completed, for Haslam House, in accordance with Council procedures. The outcome of the EqIA was: "No change required: the EqIA has not identified any potential for unlawful conduct or disproportionate impact and all opportunities to advance equality are being addressed."

10. 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.

10.1. 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.

10.2. 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.

11. Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 24 April 2017		
Name: Matthew Adams	<input checked="" type="checkbox"/>	On behalf of the Monitoring Officer
Date: 24 April 2017		

Ward Councillors notified:	NO, as it impacts on all Wards
EqIA carried out:	NO
EqIA cleared by:	See section 9 above

12. Contact Details and Background Papers

Contact: Peter Wright, Interim Specialist (Programmes), 020 8424 1519, peter.wright@harrow.gov.uk

Background Papers: None.

Call-In Waived by the Chair of Overview and Scrutiny Committee	NOT APPLICABLE <i>[Call-in applies]</i>
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