

REPORT FOR: CABINET

Date of Meeting:	21 June 2018
Subject:	Response to the Scrutiny Review Panel Report on Regeneration Finance
Key Decision:	No
Responsible Officer:	Paul Nichols, Divisional Director of Regeneration and Planning
Portfolio Holder:	Councillor Keith Ferry, Deputy Leader and Portfolio Holder for Regeneration, Planning and Employment Councillor Adam Swersky, Portfolio Holder for Finance and Resources
Exempt:	No
Decision subject to Call-in:	No, as the recommendations are for noting only
Wards affected:	All Wards
Enclosures:	None

Section 1 – Summary and Recommendations

This report provides responses to the recommendations from the Regeneration Scrutiny Panel Report on Regeneration Finance from March 2018.

Recommendations:

Cabinet is requested to:

- Note the recommendations of the Overview and Scrutiny Committee
- Note the actions undertaken in response to the recommendations as set out in this report.

Reason: (For recommendations)

The recommendations and responses are based on the outcome of the Regeneration Scrutiny Review process.

Section 2 – Report

Introductory paragraph

The scope of the Regeneration Scrutiny Review was to consider the Council's regeneration and development programme on general fund land, HRA land, other public sector land and private land in the borough over the period 2017-21.

The purpose of the review was to:

- Review the planned capital and revenue financing for the regeneration programme and to assess whether the Council's proposals for the financing of its regeneration programme are realistic, affordable, robust and deliverable. This includes aspects of the commercialisation strategy (e.g. the proposal to build private homes for rent) that directly impact upon the regeneration and development programme;
- Review selected financial assessments for individual regeneration projects, including investigating the regeneration programme finance model, in particular the underlying assumptions, cash flow projections and projected costs and benefits over the near and longer term;
- Ensure that financial risks are properly considered and that proposed mitigations are appropriate and balanced;

- Appraise the projected financial benefits of the Council’s regeneration programme and ensure a balanced risk management process and proposed mitigation measures are in place;
- Greater understanding and clarity of the financing of the regeneration and development programme by members; and
- Carry out a review of projected benefits of the regeneration programme, including direct and indirect benefits to the Council, business and to the local community.

Options considered

The table below sets out the recommendations relating to options considered by the Panel and the Council’s response.

Background

This Scrutiny Review has involved desk research, two Challenge Panels and two field visits as detailed below:

- Policy Officers undertook desk research into the financing of regeneration programmes in a select number of Councils that have a similar make-up to that of Harrow. The aim was to investigate what other comparable local authorities were doing as part of a regeneration and commercialisation agenda. The Panel also had the opportunity to scrutinise the latest update on Regeneration, which was published on 14 September 2017.
- Members and officers visited two London Boroughs (Barnet and Waltham Forest) to gain a detailed understanding of the challenges that were being faced. These field visits explored best practice by other councils in how they finance and manage their regeneration and development programmes.
- Two Challenge Panels were held, with questions being put to the Chief Executive, the Director of Finance, the Divisional Director of Regeneration and the Leader and Deputy Leader of the Council.

Recommendations and responses

The table below sets out responses to the recommendations arising from the Regeneration Programme Scrutiny Review.

No.	Recommendation	Response
1	That the Regeneration Programme Risk Register include the capitalisation of wages in the Regeneration Programme, and the revenue risk involved if this cannot happen in certain cases	Currently this does not get reported into the risk register but going forward this will be the case. This should only be relevant to schemes that are within feasibility or where there has been a change in scope and are not taken ahead. Previous practice was to treat feasibility schemes in the first instance

		<p>as capital, this practise has stopped and all feasibility schemes are now treated as revenue with staff time only being capitalised when the decision has been taken to take the scheme forward. A thorough review is being undertaken to ensure that the capitalisation policy is being correctly administered.</p>
2	<p>That officers produce one report that includes all risks and mitigations in relation to the Regeneration Programme.</p> <p>This report will include the impact the expected increase in population will potentially have on the council, its partners and the borough.</p> <p>The report will analyse and discuss, but not be limited to, the impact on (1) the NHS and care services, (2) education, (3) transport services (including both infrastructure and capacity improvements to rail and bus services, better London orbital routes, and other local transport issues that will be experienced throughout the developments, i.e. parking and road issues), (4) refuse collection, (5) increased demand for enforcement and regulation against the potential social and economic gains including increase in Council Tax receipts and business rates (including any business profiling that has been undertaken and a strategy to encourage businesses to move and stay in Harrow), (6) the New Homes Bonus, (7) increased employment (and whether this will be long or short term), and (9) apprenticeships that may be created in the area, and if so,</p>	<p>The need to prepare a report which demonstrates the anticipated impacts of population increase in the borough associated with the Regeneration Programme is acknowledged.</p> <p>Officers will prepare a report that utilises the existing evidence base that: supported the Area Action Plan and Regeneration Strategy; draws on advice from internal and external partners and stakeholders; and articulates existing work that has been done on the positive socio-economic impacts of the Programme.</p> <p>The report will address the anticipated impacts of the Regeneration Programme on health services, education, transport, refuse collection, Council Tax and Business Rates, the New Homes Bonus, employment and apprenticeships.</p> <p>It is anticipated that the report will be completed by late Autumn 2018.</p>

	in which sectors and in what numbers.	
3	That a comprehensive lobbying strategy be agreed to promote improved transport links to central London and out of London be developed and integrated within the Regeneration Programme.	<p>Work has commenced on developing a Transport Improvement Lobbying Strategy that will include enhanced dialogue with TfL, GLA, Network rail and MPs. The Strategy will target objectives including:</p> <ul style="list-style-type: none"> • Opportunities for transport improvement funding from TfL capital projects • The inclusion of local transport improvements in the 2018 Mayor's Transport Strategy • Transport improvements associated with Heathrow expansion • Step-free access at Sudbury Hill station • Step-free access at South Harrow station • Establish capacity issues at Harrow and Wealdstone and Harrow on the Hill stations, as evidence for service improvement lobbying.
4	That, as part of the lobbying strategy, for a letter to be drafted from the Leader of the Council and the Leader of the Opposition to the Mayor and TfL (London Underground Lines and London Overground), relevant Government Ministers, the Department of Transport, Network Rail, and rail operating companies (London Northwestern Railways, Southern, and Chiltern Railways) calling for improvements in capacity and facilities at Harrow and Wealdstone Station and Harrow-on-the-Hill station along with greater frequency, more capacity and improved reliability of all services operated by London Underground Lines, London Overground, London Northwestern Railways,	As at 3, work will be undertaken to establish capacity issues at Harrow and Wealdstone and Harrow on the Hill stations. Once complete, that evidence will be used to support engagement between key transport infrastructure providers and stakeholders from relevant Members aimed at improving services that require it.

	Chiltern Railways and Southern.	
5	That the Council produce a Harrow specific, all-encompassing infrastructure plan/ strategy, which will incorporate the Atkins study on Wealdstone and clearly set out how the impacts of the Regeneration Programme will be managed both short and long term.	As at 2, it is agreed that a report that analyses the potential impacts of the Regeneration Programme on infrastructure should be produced. That report will reference the Atkins Study and it is anticipated that it will be completed by late Autumn 2018. It will consider how potential impacts could be managed in the short and the long term.
6	That all relevant strategies produced by the Council reference the Regeneration Programme and how they contribute to or are impacted by it.	All council departments will work towards ensuring strategies are considered in light of the council's current regeneration strategy, with a view to aligning priorities and linking with potential opportunities that may arise. The council's Corporate Strategic Board will routinely look forward to strategies that are due to be presented at Cabinet or Council looking specifically for links. Additionally, officers will work to update the CSB report template to ensure that all strategy leads give consideration to regeneration when developing policies. It will be for strategy owners to look for the alignments, links and opportunities at both a strategic and operational / tactical level.
7	That the Programme should investigate and learn from the 2008 financial crash and specifically what happened to rental prices in Harrow and further consider what a 20% - 30% downwards price correction would do to the For Sale strategy to make sure we better protect the financial viability of the programme.	The Regeneration Programme financial model is dynamic and updated regularly, including updates on rental and sales values from the industry. The financial model is currently subject to a review to ensure current programme thinking is accurately reflected in financial terms. Once this is complete, sensitivity analysis can be undertaken to model a number of scenarios on rental and sale values to ensure plans are in place in case the scenarios come to fruition.
8	The panel recommends that the break-even point for all planned regeneration projects is constantly reviewed, and that appropriate steps are taken to address any adverse change	At present, the financial model looks at project performance against a target yield of 5% for the Build to Rent schemes. Overall the Regeneration Programme must achieve a cost neutral position to prevent any pressure on the general fund. The financial model is currently subject to a review to ensure the model is fully populated and is

		flexible to meet the needs of the evolving Regeneration Programme. The issue of break-even point at project level is being discussed with the financial modellers.
9	<p>To understand the implications of the 2020 business rates recalculation on the Civic Centre and Kodak sites; to ensure a reduction in notional business rates for the borough; and to establish a proactive lobbying strategy (particularly with Ministry of Homes, Communities, and Local Government (MHCLG), and Treasury) to ensure an exemption in business rates for both sites.</p>	<p>All commercial property was revalued recently as part of the national 2017 revaluation. The Civic Centre and Kodak were also revalued as part of this.</p> <p>Currently, under the 100% London Pool Pilot, Harrow is a gainer as it benefits from business rates growth around London regardless of whether business rates in Harrow are either static or declining.</p> <p>The coming Fair Funding Review, to be implemented for 2020, will re-establish the baseline need of every local authority, and, at the same time, the business rates baselines will be reset for the first time. The government also intends to redesign the business rates retention system, moving to a 75% local retention, while restructuring the system of risk and rewards.</p> <p>At the moment there is uncertainty that if a London Pool was to continue, whether it would continue under the current 100% local retention or whether it would move to the proposed 75% scheme. Both the changes regarding percentage changes and whether a London Pool continues could impact adversely on Harrow business rates income.</p> <p>Officers have already responded to the Fair Funding review consultation and other consultations on business rates devolution and have advocated support of a London Pool. Should a London Pool continue this will ensure Harrow is not just dependent on its own business rates. Large fluctuations would be offset by sharing growth across London. Key large sites which may be lost in the future, for example the existing Civic Centre and the Kodak site, in isolation will only marginally impact on future rating income. The Civic Centre would also be partly replaced by a new although smaller building but additional commercial properties would come out of the regeneration plan. As such any business</p>

		<p>rates losses would only be temporary as, overall, the new buildings would offset any losses due to the 2 aforementioned buildings being demolished.</p> <p>We must also consider that as we currently retain 64% of all business rates income under 100% localisation, losing large buildings on which we ourselves pay business rates is not actually a loss; we may lose 64% of the rate retention but in the case of the Civic Centre we reduce our liability for business rates significantly.</p> <p>Exempting or removing properties from the Valuation list unfortunately is the jurisdiction of the Valuation Office which is part of HMRC. As such it is not appropriate to lobby Government, but officers will look to see if there is anything strategically that can be done to influence the rateable value so it positively supports Harrow's long term taxation objectives.</p> <p>It is also important to note that any impact on business rates needs to be understood alongside the substantial positive impact on the Council Tax base from the Regeneration Programme.</p>
10	<p>The panel recommend that modelling of the new Civic Centre should reflect the efficiency of the new Civic Centre for staff and maintenance costs, so that we get the true opportunity costs of any delay, including a reduction in business rates.</p>	<p>The project model / business case for the Civic Centre includes both capital requirements and revenue implications, including capital financing, fit out and IT. The efficiency of the new Civic Centre for staff and maintenance is integral to the Civic Centre Transition Plan which is running alongside the Regeneration Programme. The impact on business rates and the Council Tax base is managed as part of the project model and MTFs.</p>
11	<p>To formalise governance arrangements for cross-party engagement on the regeneration programme post-election, and establish a public forum, either through the Major Developments Panel as it currently exists, or by expanding the remit of this Panel, or establishing a new, specific Regeneration Panel.</p>	<p>The need to further develop cross-party governance of the Council's regeneration programme, as it moves into implementation, is fully accepted. The Major Developments Panel (MDP) provides cross-party oversight of Planning and Development issues in Harrow, within a formally constituted and public forum. With appropriate development, this could form an appropriate basis for cross-party governance. All major regeneration projects (whether private sector or Council) have</p>

		<p>been brought to the MDP for review and comment at the pre-application stage. As the Council's regeneration programme gathers pace, it is proposed to broaden the remit of the MDP to consider programme wide progress reviews. The Panel can also review and comment on the ongoing implementation of major development schemes forming part of the Council's regeneration programme.</p>
12	<p>For the Corporate Risk Register to reflect an overall risk and level of risk of the regeneration programme, and to include a risk on the Corporate Risk Register of each high value project (such as the Civic Centre) at the GARMS committee.</p>	<p>The Corporate Risk Register includes two risks for the Regeneration Programme: 32 – New Civic Centre is not built within cost and on time 33 - The Harrow Regeneration Strategy / programme fails to deliver its core objectives and is unaffordable.</p> <p>The Risk Register is refreshed quarterly and reported to the GARMS Committee after each update.</p>
13	<p>To develop cross-party understanding of the critical pathways of the regeneration programme, and the timing of the "stop-go points".</p>	<p>As set out in (11) above, reports and project dashboards relating to the Council's regeneration projects can be brought to the MDP on a regular basis. These will indicate outstanding risks, delivery progress, upcoming decisions, inter-dependencies and items on the critical path at programme level.</p>
14	<p>To ensure that other related bodies, such as the Health and Well-being Board, Harrow's Clinical Commissioning Group, Safer Harrow, Harrow Youth Parliament, and all relevant and significant partners have an integrated approach to the Council's regeneration strategy.</p>	<p>An integrated approach will be vital to ensure that the Council's regeneration programme delivers the full range of potential social, economic and placemaking benefits in Harrow. The Building a Better Harrow Board has a remit to ensure that all relevant and significant partners are engaged in the development and implementation of the programme. For example, detailed discussions are in train with Harrow's CCG to look at the potential for closer integration with Council services and the development of primary care hubs within the regeneration programme.</p>
15	<p>To continue to monitor and assess risks in relation to the likelihood of further interest rate rises.</p>	<p>The most appropriate debt management strategy for the Regeneration Programme is under constant review with the Council's Treasury Management Advisors to ensure that the most appropriate borrowing opportunities are pursued and the borrowing is timely to minimise the cost of carry. The monitoring of interest rates is integral to</p>

		the Treasury Management function and interest rates are tracked regularly to gauge the optimum time to borrow to support the Regeneration Programme and minimise the cost of carry.
16	The panel recommends that borrowing is not delayed by pursuing unrealistic borrowing opportunities.	The most appropriate debt management strategy for the Regeneration Programme is under constant review with the Council's Treasury Management Advisors to ensure that the most appropriate borrowing opportunities are pursued and the borrowing is timely to minimise the cost of carry.
17	To ensure a proactive transport lobbying strategy is in place in order to ensure issues around reliability, capacity, and frequency are addressed in relation to Harrow and Wealdstone station.	As at 3 and 4, work has commenced on a comprehensive Transport Lobbying Strategy which will seek to establish capacity issues and engage with key stakeholders in an attempt to resolve them.

Risk Management Implications

Risk included on Directorate risk register? Yes

Separate risk register in place? Yes

This report requires a check of regeneration programme risk registers to ensure that risks associated with the potential future decapitalisation of projects are fully reflected.

Procurement Implications

The recommendations and responses contained in this report do not give rise to any specific procurement implications at this time.

Legal Implications

The recommendations and responses contained in this report do not give rise to any specific legal implications at this time.

Financial Implications

The recommendations and responses contained in this report do not have any financial implications at this time.

Equalities implications / Public Sector Equality Duty

It is considered that there are no specific implications arising from the recommendations in this report on equalities, or as a result of the Public Sector Equality Duty.

Council Priorities

The content of this report relate to the Council's Priorities as in the following ways:

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.

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.

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.

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.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert

Chief Financial Officer

Date: 11 June 2018

Name: Stephen Dorrian

on behalf of the
Monitoring Officer

Date: 11 June 2018

Section 3 - Procurement Officer Clearance

Name: Nimesh Mehta

Head of Procurement

Date: 8 June 2018

Ward Councillors notified:

**NO, as it impacts on all
Wards**

EqlA carried out:

NO

An EqlA is not required because this report is responding to the recommendations of the Scrutiny Review Panel and is not proposing any programme changes at this time.

Section 4 - Contact Details and Background Papers

Contact: Paul Nichols, Divisional Director Regeneration Enterprise and Planning, 020 8736 6149, paul.nichols@harrow.gov.uk

Background Papers:

Agenda Item 7b of Cabinet Report dated 15th March 2018.

<http://www.harrow.gov.uk/www2/documents/s150198/Regeneration%20Programme%20-%20Reference%20from%20OS%20to%20Cabinet.pdf>

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

NOT APPLICABLE

*[Call-in does not apply as the
Recommendations are for noting
only]*