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**REPORT FOR: CABINET**

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<b>Date of Meeting:</b>	11 April 2019
<b>Subject:</b>	Homes for Harrow: Grange Farm Regeneration Phase1
<b>Key Decision:</b>	Yes. The decision is key because it will incur capital expenditure significantly over £1m
<b>Responsible Officer:</b>	Nick Powell, Director Housing Services,
<b>Portfolio Holder:</b>	Councillor Philip O'Dell, Portfolio Holder for Housing
<b>Exempt:</b>	Part Open, Part Exempt. Appendices 1 and 2 are exempt by virtue of Paragraph 3 of Schedule 12a to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
<b>Decision subject to Call-in:</b>	Yes
<b>Wards affected:</b>	Harrow on the Hill
<b>Enclosures:</b>	Exempt appendices – Appendix 1: Phase 1 Grange Farm Tender Report and Key Issues Appendix 2: Grange Farm Business model

## **Section 1 – Summary and Recommendations**

This report sets out proposals for Cabinet to approve that will enable Phase 1 of the Grange Farm housing regeneration project to commence.

### **Recommendations:**

Cabinet is requested to:

1. Approve the business model for the Grange Farm regeneration project and the capital budget for the delivery of Phase 1.
2. Approve the award of a design and build contract for the construction of Grange Farm Phase 1 to Higgins Construction PLC on confirmed award of the £10m Housing Infrastructure Funding.
3. Delegate authority to the Corporate Director Community, following consultation with the Portfolio Holder for Housing, Portfolio Holder for Finance and Resources and Portfolio Holder for Regeneration, Planning and Employment, Director of Finance and Director of Legal and Governance Assurance to accept tenders and enter into contracts, submit grant applications and bids for additional resources and enter into any related legal agreements for any matters referred to in this report and which may contribute towards the Council's housing regeneration initiatives.

**Reason:** To ensure the delivery of Phase 1 of the Grange Farm housing regeneration project

## **Section 2 – Report**

### **1. Introductory paragraph**

It is a key council priority to deliver 500 new council homes, making a difference in Harrow by increasing the supply of genuinely affordable housing to meet the needs of vulnerable households and families who cannot afford market housing.

In February 2018, Cabinet approved the procurement process to take forward the regeneration of the Grange Farm estate by appointing a contractor to directly deliver Phase 1 of the redevelopment. We are now in a position to confirm the contractor to be appointed as planning permission is now granted

and the project will be fully funded when the contract for the Housing Infrastructure Funding (HIF) is signed.

## **2. Options considered**

Direct delivery options and options to dispose of the Grange Farm estate were initially considered. The council has decided to redevelop and retain the affordable housing on the estate as part of its ongoing programme of council house building to increase the supply of genuinely affordable housing in Harrow

## **3. Current situation**

### **Grange Farm Housing Regeneration**

- 3.1 There have continued to be many barriers to overcome to take this scheme forward and start building new homes. The Local Planning Authority resolved to grant planning permission for the revised application in March 2018, subject to a section 106 and referral to the GLA to redevelop the estate and provide 574 new homes of which 216 were replacement social rented housing, 25 were shared ownership and 333 were for private sale. The overall level of affordable housing was 42% with no net loss of council housing when measured by floor space.
- 3.2 The application was then referred to the GLA for consideration as it is a major application requiring approval by the Mayor. The GLA required additional financial viability information before making their decision and we have been working with the GLA since then to finalise this.
- 3.3 The Mayor also launched his Building Council Homes for Londoners (BCHfL) prospectus in May 2018. This made a new pot of funding available to Local Authorities to bid for grant to build new council homes for social rent and shared ownership. The grant rate was increased to a fixed rate of £100,000 for social rent homes. It also introduced the Right to Buy Ring-Fence offer. By opting in to this offer, the GLA will ring fence any Right to Buy receipts that a council collects and returns to the GLA (via central government) for use by that council in accordance with a standard agreement. This was a significant improvement as prior to this any receipts returned by Harrow could be invested anywhere in London and not for the benefit of Harrow residents.
- 3.4 The other major difficulty for Harrow was its inability to borrow money in the Housing Revenue Account (HRA) to fund its development programme. Previous Cabinet reports have detailed the unique position of Harrow in that it was at its borrowing cap set by government when it entered the self-financing regime in 2012 – one of only two London Boroughs in this position. Much lobbying had taken place to remove this barrier to increasing the supply of affordable housing. The government initially announced £1bn of additional HRA borrowing in the Autumn budget 2017 and the Mayor launched a bidding round for this in July 2018. Finally the HRA borrowing caps were abolished altogether in

November 2018. This meant that finally clearer funding options were available for both the Grange Farm regeneration and an ambitious Council House Building Programme.

- 3.5 The council submitted a successful bid under the BCHfL programme, details of which were reported to Cabinet in February 2019. The approved programme includes a funding strategy for the Grange Farm estate regeneration which utilises ring fenced Right to Buy receipts, other HRA resources, HRA borrowing and assumed Housing Infrastructure Funding (HIF) of £10m. Due to the different funding bid timescales the financial viability assessment for the planning application was finalised in December 2018. As a result of the revised funding strategy it has been possible to increase the level of affordable housing to be provided on the estate. Of the 574 new homes, 249 will be council rent (an increase of 33), 25 shared ownership and 300 private sale. This means there is an additional amount of council housing being replaced when measured by habitable rooms. The scheme includes some family sized three and four bedroom council homes. The overall level of affordable housing has therefore been increased from 42% to 48%. The GLA confirmed their satisfaction with our revised proposal, the Mayor issued his Stage 2 approval in February 2019 and Harrow council has now issued the planning permission.
- 3.6 Our HIF bid was submitted to MHCLG in September 2017 and we received confirmation the bid was successful, subject to further due diligence, in February 2018. The due diligence process has been ongoing since then and the council has had to resubmit its bid reflecting the changes to the scheme since bid submission in October 2017. Homes England is assessing the bid on behalf of MHCLG and visited the scheme on 21 February. They are now satisfied with the information we have provided and we anticipate receiving formal notification on the successful outcome of our bid very soon.
- 3.7 In February 2018 Cabinet approved the procurement process for Phase 1, to appoint a contractor to design and build 89 affordable homes (68 for council rent and 21 for shared ownership) directly for the council. Expressions of Interest were sent out to contractors on the A2 Dominion Framework on the 9 March 2018 with 7 contractors expressing an interest. Following a soft market testing exercise, a sifting brief was issued to these contractors and 4 contractors were subsequently shortlisted for the formal invitation to tender (ITT) stage. The ITT was issued on the 20 July 2018 and the final submission date was 25 October 2018.
- 3.8 The ITT evaluation methodology is Most Economic and Advantageous Tender (M.E.A.T) based on 60% price and 40% quality. The quality aspects included responses to questions regarding site delivery, site management and resources, quality control, stakeholder interface and social value commitments. As part of its commitment to ensuring residents are involved throughout the regeneration process, the Resident Steering group nominated representatives to be involved in all stages of the evaluation process supported by the Independent Tenant

Adviser. Training was provided to the nominated residents on the procurement and evaluation process. Contractors were also required to make presentations to the council and residents evaluation team.

- 3.9 Four submissions were received by the final return date. One withdrew just before the presentation date leaving three submissions to be assessed. Potter Raper Partnership (PRP), our Employers Agent for the project, prepared a pre tender estimate for Phase 1 in July 2018 of £22,645,556. The tender submission prices from the final three contractors are as follows:

<b>Contractor</b>	<b>Price</b>
Contractor A	£22,505,860
Contractor B	£22,498,225
Contractor C	£23,943,245

- 3.10 PRP have prepared a summary Tender Report which is attached at Appendix 1. They concluded the tender process has been carried out in full compliance with the ITT scoring and evaluation methodology and was a very robust process. The responses received were of good quality and there are no serious omissions to cause alarm for the council. Following the detailed tender evaluation and cost analysis set out in the Tender Report, PRP recommend that Contractor B (Higgins Construction PLC) is awarded the design and build contract for Phase 1 of the Grange Farm Estate Regeneration.
- 3.11 At the time of starting the tendering process we had anticipated that both the planning permission and process for confirming the HIF funding would be concluded before the tendering process had completed. The issues arising from the delays with both of these are set out in exempt Appendix 1. The recommendation is to proceed with award of the contract to Higgins Construction PLC subject to confirmation of the HIF award.
- 3.12 The Grange Farm Business model has been updated to reflect the change in tenure mix (more council rented housing and less market sale), the actual build price for Phase 1 and updated cost estimates for future phases, confirmed funding from the GLA (ring fenced RTB receipts) and anticipated from the government (HIF), use of other HRA resources including borrowing. With the HIF funding there is no estimated funding gap based on current assumptions. It should be noted this is only a snapshot of a specific moment in time and which will change throughout the full regeneration programme. A summary of the Business model is attached at Appendix 2 for information.
- 3.13 Cabinet approved budgets for Grange Farm phase 1 on 21<sup>st</sup> Feb 2019 as part of the HRA Budget and MTFs report subject to confirmation of the HIF funding and the table below shows the full life cost and funding :

<b>Item</b>	<b>Budget (full life)</b>
Design and Build Contract	£22,498,230

Fees including salaries	£2,325,420
Contingency & other	£1,329,930
Leasehold acquisitions, Home Loss and Disturbance etc	£3,194,990
<b>TOTAL COSTS</b>	<b>£29,348,570</b>
<b>Funded as follows:</b>	
Right to Buy receipts	£4,335,220
HIF	£5,000,000
HRA resources	£16,462,030
HRA Borrowing	£3,551,320
<b>TOTAL FUNDING</b>	<b>£29,348,570</b>

- 3.14 The build contract for Phase 1 can be entered into now that we have planning permission and when the HIF funding is confirmed.
- 3.15 Once the contract has been entered into we will be required to provide vacant possession of the site and the contract assumes demolition and commencement of building works will be between October 2019 – January 2020. We are proceeding to move the final secure tenants and temporary residents from Phase 1 by offering them reasonable alternative accommodation. The tenants have been served with legal notice to vacate. Our Decant and Rehousing Officer is working with the permanent tenants to find other council accommodation. The Housing Needs team is working with the temporary residents to help them move to other accommodation. Officers are located on the estate at the Community Centre every week on a Thursday for residents to drop in with any questions. Vacated flats are now being secured and boarded up in preparation for demolition.
- 3.16 We are in final negotiations with the remaining leaseholders in Phase 1. As we have done before, incentives have been offered for early completions.
- 3.17 In Feb 2018, Cabinet gave authority to the Director of Legal and Governance Service to commence the Compulsory Purchase Order (CPO) for Phase 1. The Land referencing process is progressing and the Statement of Reasons is being prepared for submission to the Secretary of State.
- 3.18 In Feb 2018, Cabinet authorised officers to carry out detailed investigation into the most appropriate joint venture or other delivery model for Phase 2 and 3 of the Grange Farm regeneration project. This has not been completed due to the time it has taken to finalise the planning application with the GLA and the funding via the BCHfL and HIF programmes. With all of this resolved, the delivery model options for Phase 2 and 3 will be taken forward.

## **Consultation and Engagement**

There has been considerable consultation and engagement since 2014 with secure tenants and leaseholders on the Grange Farm estate, local community groups and the wider community. Consultation on the proposed plans was completed last year but the following activities continue;

- Monthly meetings with the Resident Steering group who are supported by the Independent Tenant Adviser. Recently these have also been attended by the Police given the anti-social behaviour issues occurring on the estate and wider South Harrow area
- Regular estate walkabouts to identify and tackle management and maintenance issues
- Bi-annual estate fun days – a summer and winter event were held in 2018. Supporting the development of other community activities eg weekly youth club run by Roxeth Church, Food club run by My Yard.
- The Community Centre being used as an estate office one day per week with officers from the housing regeneration team and housing needs team available to meet with both permanent and temporary residents about their housing issues
- Newsletters for all residents on the estate

## **Performance Issues**

The delivery of the Homes for Harrow programme contributes to meeting the council's target to deliver at least 500 new council homes as well as the overall affordable housing targets set out for Harrow in the London Plan.

## **Environmental Implications**

All new homes have to meet high standards of energy efficiency to reduce CO2 emissions as well as reduce fuel poverty. Larger schemes such as the Grange Farm regeneration project will also provide a Combined Heat and Power plants (CHP) in accordance with London Plan requirements.

Other environmental improvements often included in new housing developments include: provision of green roofs, solar thermal hot water systems to meet the target for use of renewable resources and resulting reduction in CO2 emissions, improved biodiversity as a result of increased tree planting and landscaped communal open spaces, provision of Sustainable Urban Drainage Systems, and green travel plans to encourage use of public transport and walking. Where possible, we will endeavour to recycle demolition material recognising this may be limited due to the construction type of some properties.

## **Data Protection Implications**

There are no GDPR implications to this report

## **Risk Management Implications**

Risk included on Directorate risk register? Yes

Separate risk register in place? Yes

The key risks are as follows:

1. Delay in obtaining vacant possession of the remaining tenanted properties in Phase 1 Grange Farm. Mitigation: The Decant and Rehousing officer and Housing Needs team are working with the remaining tenants to find suitable offers of alternative accommodation. If these tenants refuse offers of reasonable alternative accommodation, the Council will proceed with court possession proceedings.
2. Delays in obtaining vacant possession of the remaining leasehold properties in Phase 1 Grange Farm. Mitigation: Negotiations with the remaining leaseholders is underway. The CPO process has commenced.
4. Owners of neighbouring properties whose rights (for example rights of light) might be affected by the Grange Farm development might delay or stop the project through injunctions. Mitigation: appropriation for planning purposes of the land required for the development will override these third party rights, which means that these third parties can only make a claim for compensation.
5. The scheme is not fully funded because the council is not yet in contract with MHCLG for the Housing Infrastructure Funding for Grange Farm. Mitigation: MHCLG have completed their due diligence process and all their queries have been satisfied. We are confident the HIF grant will be awarded in due course.
6. Market risks relating to Brexit. A significant property price fall would impact as the project relies on cross subsidy from market sales and shared ownership. Mitigation: Shared Ownership properties in Phase 1 will not be ready until Spring 2021. Market sales are not proposed until Phase 2 Grange Farm which is not due to commence until 2021. By 2021 the impacts of Brexit will have had time to work through the market. Alternatives would be to switch sales to private rent.
7. Interest rates. A proportion of funding will be from new debt, following relaxation of borrowing restrictions for new build. A significant increase in interest rates, compounded by uncertainties around Brexit, will add to costs in the HRA. Mitigation: business models will be kept up to date with latest cost, income and macro-economic factors to ensure risks are identified and mitigated in good time.



## **Procurement Implications**

The procurement of the contract for Phase 1 Grange Farm has been covered in detail above and has been undertaken with the support of the Procurement team.

It is the opinion of the Procurement Team (on behalf of the Head of procurement) that the procurement process has been conducted consistent with the principles of transparency, equality of treatment, fairness and non-discrimination.

The recommended provider has demonstrated their submission is the Most Economically Advantageous Tender and therefore the Procurement Team fully support the award recommendations made in this report.

There will be a significant amount of procurement for both ongoing technical consultants and contractors to deliver the future phases of Grange Farm. The Procurement Team will ensure that these procurements are carried out in accordance with the Public Contract Regulations 2015 and the Councils Contract Procedure Rules.

## **Legal Implications**

The formal possession process for the non-secure tenancies in Phase 1 commenced in January 2019. The possession process for the remaining 2 secure tenancies in Phase 1 has also commenced and the tenants are being made a reasonable offer of alternative accommodation which could be an existing alternative equivalent size property on the Grange Farm estate.

The CPO process for Phase 1 is proceeding.

Following Cabinet's approval in February 2018 for the commencement of a procurement process to appoint a contractor to undertake the works for Phase 1 of the regeneration of Grange Farm, the Council undertook a mini-competition procedure as set out under the A2 Dominion Framework Agreement, to identify the successful contractor. The design and build works to be undertaken for Phase 1 at Grange Farm are in scope and in line with the requirements of the A2 Dominion Framework Agreement and the Council can now award and enter into a call-off agreement with the successful contractor. The Council has complied with the Public Contracts Regulations 2015 and the Council's Contract Procedure Rules throughout this process.

Once executed by both parties, the call-off contract shall constitute a binding Agreement and shall incorporate the terms and conditions of the A2 Dominion Framework Agreement.

## **Financial Implications**

The Homes for Harrow programme, including Grange Farm, has been subject to rigorous sensitivity testing to ensure it is affordable taking into account the allocated grant funding, RTB receipts and ring fenced RTB receipts and other available council funding including the cost of HRA borrowing. The details of how this will operate in the HRA was approved by Cabinet in February 2019.

Specific capital budgets for Grange Farm Phase 1 were approved by Cabinet 21st February 2019 as part of the HRA Budget & MTFs and paragraph 3.13 summarises the budgets and funding sources..

The overall Grange Farm regeneration scheme makes many assumptions about costs (build costs, fees, borrowing costs) and revenues from shared ownership and market sales which will change over time. Although a contingency has been built in the position will be strictly monitored on a monthly basis with regular reports to the relevant internal Boards and regular updates to Cabinet.

The financial risks the Council will be exposed to as a result of the Grange Farm regeneration, were set out in the February 2019 HRA Budget report along with mitigations, the main being the phasing of the project to ensure the risk is compartmentalised as far as possible thereby preventing Council from over extending financial resources.

## **Equalities implications / Public Sector Equality Duty**

An Equalities Impact Assessment was produced specifically for the Grange Farm regeneration project in 2016. It has been reviewed but no significant changes have been made as the objectives are unchanged and the amount and type of affordable housing being replaced has increased which is a positive impact.

The initial assessment was based upon a Housing Needs Assessment carried out in 2014. The assessment did not identify any disproportionate impact upon any protected categories. The needs of those with physical disabilities will be specifically accommodated in the new buildings with 10% of all new rented homes being built to full wheelchair standard and remaining properties meeting Lifetimes Homes Standards. Rehousing options available to all secure tenants includes a guarantee that they can return to the new development should they choose and as an alternative a permanent offer of rehousing should they wish to remain in their decant property. Where tenants have decanted, a number have had overcrowding alleviated by these decant moves, as the council has confirmed that actual housing need will be met in decanting or rehousing to the new Grange Farm development even if this exceeds what might have been offered under the current allocations policy. Older tenants have moved to sheltered housing where this was needed and requested. Updated Needs Assessments for households in Phase 1 and 2

have been completed to inform the allocations for the new homes to be built in Phase 1. Updated needs assessment for the remainder of the estate will follow to inform the detailed planning application for the new homes in Phase 2 and 3.

All secure tenants having to move as a result of the regeneration scheme are paid a Home Loss amount, at the time of moving, set nationally (currently £6,300) and all reasonable expenses of removal are met.

A separate Health Impact Assessment has also been undertaken which will be used to track the long term impact of the regeneration scheme. To date this impact assessment has identified a number of positive benefits that should flow from the regeneration, including improvements in living environment (internal and external), economic benefits, lifestyle opportunities and community enhancement.

## **Council Priorities**

The Council's vision:

### **Working Together to Make a Difference for Harrow.**

The Council's strategy to deliver its vision is set out in the Harrow Ambition Plan 2020 under three themes. Under the theme Build a Better Harrow the Homes for Harrow Programme will contribute positively to the Council's vision, Ambition Plan and priorities in the following ways:

- Making a difference for the vulnerable – building a range of new genuinely affordable homes including homes for those who are most in need.
- Making a difference for communities – we are involving and engaging residents on the Grange Farm estate and from the wider community in the development of new homes, the replacement of poor housing, the reprovision of community facilities and improvements to the external environment.
- Making a difference for families – Improving the worst social housing in Harrow and building homes to meet family needs. Other benefits flowing from the regeneration programme include the creation of apprenticeships, jobs and training opportunities to help those most in need, especially the young.

## **Section 3 - Statutory Officer Clearance**

Name: Tasleem Kazmi

on behalf of the  
Chief Financial Officer

Date: 1 April 2019

Name: Jimmy Walsh

on behalf of the  
Monitoring Officer

Date: 28 March 2019

### **Section 3 - Procurement Officer Clearance**

Name: Jessica Covey

on behalf of the  
Head of Procurement

Date: 1 April 2019

Name: Paul Walker

Corporate Director,  
Community

Date: 2 April 2019

**Ward Councillors notified:**

**YES**

**EqIA carried out:**

**YES**

**EqIA cleared by:**

Dave Corby, Chair of  
Community DETG as per the  
Grange Farm Cabinet report  
in May 2016

### **Section 4 - Contact Details and Background Papers**

Contact: Alison Pegg, Head of Housing Regeneration, 020 8424 1933 [alison.pegg@harrow.gov.uk](mailto:alison.pegg@harrow.gov.uk)

Background Papers:

**Cabinet Report 15 February 2018 Grange Farm Estate Regeneration Update**

<http://www.harrow.gov.uk/www2/documents/g64139/Public%20reports%20pack%20Thursday%2015-Feb-2018%2018.30%20Cabinet.pdf?T=10>

<b>Call-In Waived by the Chair of Overview and Scrutiny Committee</b>	<b>NO</b>
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