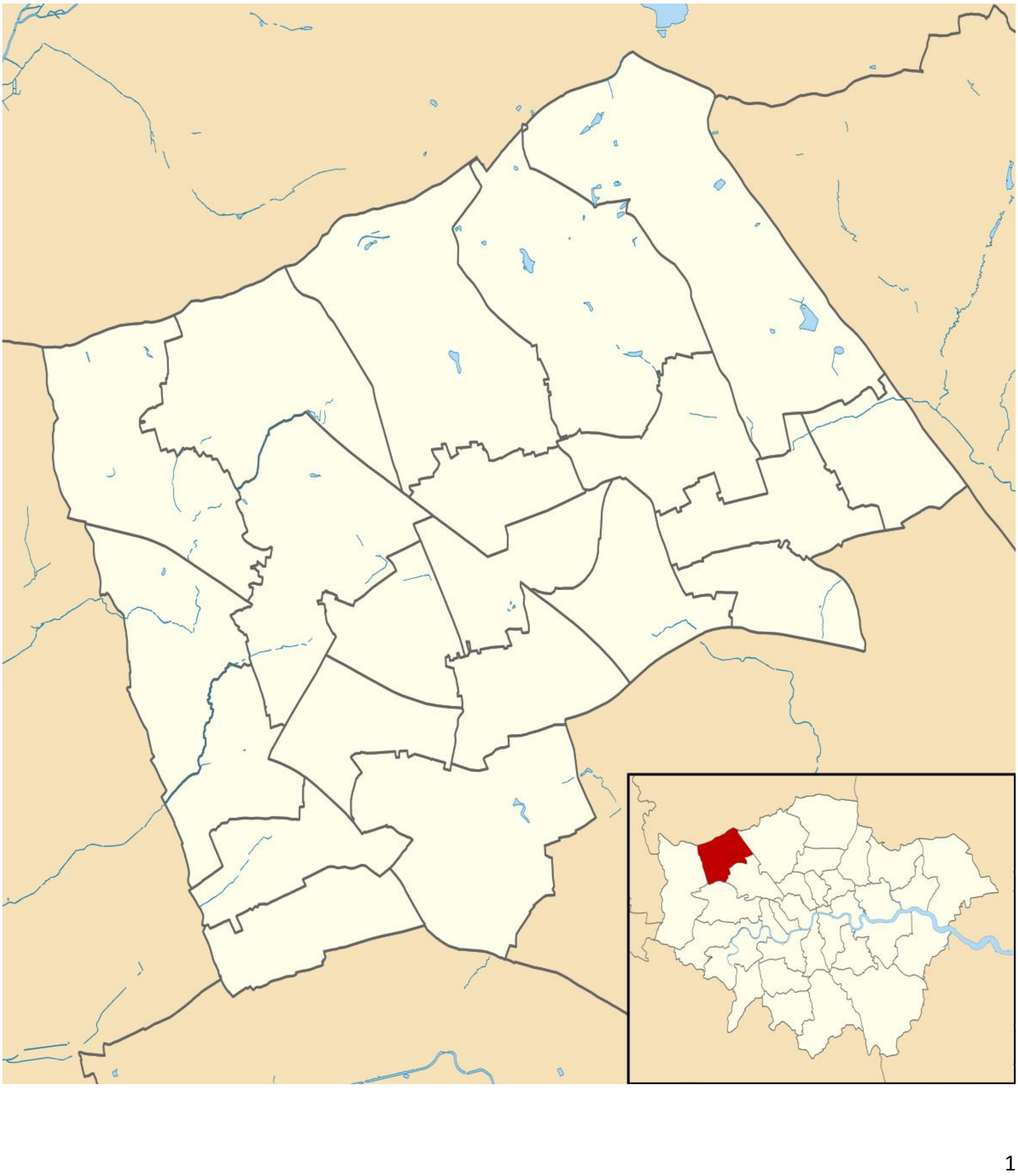
Overview and Scrutiny

FINANCING OF THE REGENERATION PROGRAMME IN HARROW

Report by the Regeneration Scrutiny Review Panel

February 2018



Chair's Foreword

I would like to present to you, on behalf of the Regeneration Scrutiny Review Panel, the final report on the financing of the Regeneration Programme. The Interim Report was published in November 2017, awaiting the proposed reprofile of the financing of the Council's Regeneration Programme which was due to be reported to Cabinet in December. This proposed reprofile was to take account of the risks and mitigations in relation to the Regeneration Programme, the impact it will have on the infrastructure of Harrow, including the NHS, education, transport services, and refuse collection; and explored the revenue and social impact against the potential social and economic gains. The Panel have now had a chance to consider the reprofiled financing of the regeneration programme, and held its final challenge panel earlier this month. This final report includes the implications of the reprofiling arrangements and includes additional recommendations as a result of this meeting.

In the interim report, the Panel was disappointed that there was no overarching infrastructure plan or strategy (incorporating the Atkins study on Wealdstone, which was also due to be published in December) clearly setting out how the impacts of the Regeneration Programme will be managed in both the short and longer term. The Panel was pleased that the Chief Executive undertook to produce this. The Panel also requested that this include a transport lobbying strategy, which would promote improved transport links to central London and out of London, putting infrastructure at the heart of the Regeneration Programme. Joint working between the administration and the opposition would be welcomed and this approach had the unanimous support of the Panel.

Reflecting on the importance of regeneration and its role in improving revenue income for the Council's finances, it was felt that all strategies produced by the Council should pay regard to the Regeneration Programme and how they contribute to or are impacted by it.

I would like to thank all the policy officers involved in making this important Review so effective, especially Shumailla Dar. The Review was also able to draw upon the support of senior officers and Portfolio Holders. In particular, I would like to thank Paul Nichols, the Divisional Director of Regeneration, Enterprise and Planning, and Cllr. Keith Ferry, Deputy Leader of the Council, for their support. Thanks also to the Director of Finance, the Leader of the Council and the former Chief Executive. I would like to also pay tribute to my Vice-Chair, Cllr. Barry Kendler, for all his work and to the Panel members, who attended a number of meetings and site visits. Their careful preparations and thoughtful contributions have made this a better and more meaningful Review. I sincerely hope that these considered recommendations are taken forward by the administration and will contribute to making a more robust and successful Regeneration Programme for Harrow.

Cllr. Barry Macleod-Cullinane
Regeneration Scrutiny Review Challenge Panel Chairman

Executive Summary

This report sets out the final findings and recommendations of the Regeneration Scrutiny Review Panel, which was established to scrutinise the Council's Regeneration Programme. The purpose of this scrutiny review was for members to gain a greater understanding and clarity of the financing of the Regeneration Programme and to carry out a review of projected benefits of the Programme, as well as to appraise the projected financial benefits of the Regeneration Programme. Members of the scrutiny panel were given the opportunity to assess whether the Council's proposals for the financing of its Regeneration Programme are realistic, affordable, robust and deliverable. Members also considered whether the Programme had an integrated approach in relation to the Council's commercialisation strategy, which directly impact upon the Regeneration and Development Programme.

The process for this review included undertaking a number of challenge panels, which gave members the opportunity to investigate the regeneration programme's finance model in greater detail, including assumptions, cash flow projections and projected costs and benefits over the near and longer term. The aim of this was to ensure that financial risks have been properly considered and that proposed mitigations are appropriate and balanced.

To support this review, desk research was undertaken by policy officers to provide insight and evidence on the scale and financing of regeneration programmes across a number of London boroughs. This research included councils that were closest in comparison to one another based on a set of indicators of the demographic and socio-economic nature of the borough. This research then enabled and assisted members to take part in a number of field visits to comparator local authorities which allowed them to explore how other boroughs finance their regeneration programmes. Supplementing the desk research, a number of fieldtrips were undertaken to other boroughs, where members met with councillors and senior officers to discuss their regeneration experiences.

Key themes emerged, including; fluctuating interest rates; impact of population growth in the borough, economic and infrastructure remodelling; and the need for a robust lobbying strategy to be developed and implemented for the Programme. A full list of recommendations is found on the next page of this report.

The recommendations from this Review are based on evidence from local data, information garnered from hosting authorities, and from senior council officers and members at Challenge Panels. It is hoped that this Review can assist in informing future development of the Regeneration Programme to ensure the best outcomes for Harrow residents and businesses.

The final recommendations to Cabinet from the Panel are:

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;

2. That officers produce one report that includes all risks and mitigations in relation to the Regeneration Programme.

   This report will include the impact of the expected increase in population will potentially have on the council, its partners and the borough.

   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, 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;

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, 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.

6. That all relevant strategies produced by the Council to reference the Regeneration Programme and how they contribute to or are impacted by it.

   The above recommendations were accepted by Cabinet in November 2018. Additional recommendations following the final challenge panel are set out below:

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.

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.

9. 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.

10. 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.

11. To formalise governance arrangements for cross-party engagement on the regeneration programme post-election, and establishing 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.

12. 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.

13. To develop cross-party understanding of the critical pathways of the regeneration programme, and the timing of the “stop-go points”.

14. 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.

15. To continue to monitor and assess risks in relation to the likelihood of further interest rate rises.

16. The panel recommends that borrowing is not delayed by pursuing unrealistic borrowing opportunities.

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.

Scope of Review

This Scrutiny Review relates to the Council's regeneration and development programme on general fund land, Housing Revenue Account (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;

- 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.

The measure of success for this scrutiny review was to ensure a greater understanding and clarity of the financing of the Regeneration and Development Programme by members.

Methodology

This Scrutiny Review has involved desk research, three Challenge Panels and two Field Visits as detailed below:

1. 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.

2. Members and officers visited two London Boroughs (Barnet and Waltham Forest) to gain a detailed understanding into 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. The political leadership of the councils that were chosen for visits were equally divided between Conservative and Labour control, reflecting the main political parties in the council.

3. Three 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.

Harrow Context

Harrow has a population of 247,130 people[1] which has grown over the last decade by 11.8% for a variety of reasons. This is above the UK average annual population increase rate over the same time period. 49.8% of the population are male, whereas 50.2% of Harrow's residents are female.

Harrow prides itself on being one of the most ethnically and religiously diverse boroughs in the country with people of many different backgrounds and life experiences living side by side. The richness of this diversity has a significant positive impact on the borough and the community. 69.1% of residents classify themselves as belonging to a minority ethnic group and the White British group forms the remaining 30.9% of the population, (down from 50% in 2001). The 'Asian/Asian British: Indian' group form 26.4% of the population. 11.3% are 'Other Asian', reflecting Harrow's sizeable Sri Lankan community, whilst 8.2% of residents are 'White Other', up from 4.5% in 2001. In terms of religious belief, Harrow had the third highest level of religious diversity of the 348 local authorities in England or Wales. The borough had the highest proportion of Hindus, Jains and members of the Unification Church, the second highest figures for Zoroastrianism and was 6th for Judaism. 37% of the population are Christian, the 5th lowest figure in the country. Muslims accounted for 12.5% of the population.

Harrow is a largely affluent borough but does have pockets of deprivation mainly around the centre, the south and east of the borough; its least deprived areas are largely found in the north and west of the borough.

Employment levels in Harrow are generally good, and Harrow has seen a reduction in unemployment and the number of long term unemployed claimants. However, a number of residents are low paid and have low functional skills. The employment deprivation domain within the 2015 Index of Multiple Deprivation (IMD) indicates 12,083 of Harrow's residents experiencing employment deprivation. This includes people who would like to work but are unable to do so due to unemployment, sickness or disability, or caring responsibilities.

Overall, Wealdstone is Harrow's most deprived ward for employment deprivation, closely followed by Roxbourne. Unemployment figures are highest in Greenhill, Wealdstone and Roxbourne wards. Employment deprivation is generally concentrated in areas with higher levels of social housing, such as the Rayners Lane Estate in Roxbourne; the Headstone Estate in Hatch End and Harrow Weald; the Woodlands and Cottesmore Estates in Stanmore Park; and the former Mill Farm Close Estate in Pinner.[2]

[1] According to 2015 Mid-Year Population Estimates

[2] Harrow Council (2017) *Equality Matters: Reducing Inequality in Harrow*

Families in Harrow experience poverty[3], for a variety of reasons, but its fundamental cause is not having enough money to cope with the circumstances in which they are living. A family might move into poverty because of a rise in living costs, a drop in earnings through job loss or benefit changes. Children in large families are at a far greater risk of living in poverty – 34% of children in poverty live in families with three or more children.

Schools in Harrow are among the best performing in the country, a record that has been maintained over a number of years; when last inspected, 100% were scored as Good or Outstanding (31st August 2016). However, inequalities in education do exist in Harrow, particularly amongst children with special educational needs (SEN), those eligible for FSM, and specific ethnic groups. There is a wider gap between pupils who have special educational needs and their peers at Key Stage compared to the national average. Additionally, children who receive FSM show less progress across all subjects between Key Stage 1 and Key Stage 2 compared to their peers.

Within Harrow, the highest proportions of the population without qualifications or with low level qualifications are in Kenton East, Edgware, Roxbourne and Roxeth. Poor language skills are a major barrier to progressing in the workplace. Harrow was one of 25 local authority areas identified by the Department for Communities and Local Government as an area with high levels of need for English Language provision. 28.5 % of Harrow's residents have a foreign first language. In 15.9 % of households English is not the main language of any household occupants, the 10th highest ranking nationally and much higher than the national level of 4.3 %. The 2011 census showed 1% of Harrow residents unable to speak English at all, compared to 0.6% for London and a national figure of 0.3%.

According to data published by the Mayor's Office for Policing and Crime, Harrow is currently recording 79% victim satisfaction (ranked 20th in London) and 64% 'good job' confidence levels for residents of the borough (27th of the 32 London boroughs).

Harrow has superb rail links to central London and beyond. It is served by several London Underground lines, London Overground, Chiltern Railways, London Northwestern Railways and Southern Railway. As a London Borough, Harrow is served by an extensive bus network. Heathrow Airport is a short distance away, whilst easy connections to the A1 (M), M1, M25, M40 and North Circular provide good road connections to other airports, across London and to the rest of the country.

Council Priorities

In light of the local context, Harrow has based the Council's Ambition Plan on the following 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.

[3] Poverty in this document refers to the *relative* poverty measure (defined by [Peter Townsend](#) as "Resources that are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities."). The definition of poverty used in this document is: *Families which have £79 less per week than families on average income.*

- **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 wellbeing.

- **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.

Harrow's Regeneration Programme

Through regeneration the Council aims 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.

The aims 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.

The regeneration strategy is therefore a key priority for the council, 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.

The programme comprises 9 sites, together with the district heating programme currently undergoing a feasibility assessment. It is currently envisaged that the initial phases of works will comprise 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 funding and affordability, a new or remodelled leisure centre may also be delivered at Byron Quarter.

Faithful & Gould have been retained as cost consultants, providing commercial advice and benchmarking against the wide range of comparable data available to them. The aim is inform design development to ensure that schemes meet the Council's objectives while remaining financially viable, before designs are submitted to planning.

The Projects are:

Poets' Corner – This is the flagship project in Harrow's regeneration programme and is the current site of Harrow's civic centre and council offices.. The Poets' Corner project involves the delivery of about 900 homes (including over 400 build-to-rent units to be retained by the Council), a new school, commercial and community space and improvements to the public realm. The Council has purchased the Wealdstone Social Club, in anticipation of the development. The negotiations with the GLA on the Housing Zone funding for Poets' Corner are at an advanced stage. The design team has started work on RIBA stage 3 (detailed design). The target planning submission date is January 2018, for a hybrid application to approve the masterplan and detailed proposals for phase 1. As part of design development the number of residential units in Poets' Corner Phase 1 has increased from 350 to approximately 410 (the exact number is subject to review as the design is further refined). The administration expects that this can be achieved within the existing budget.

New Civic Centre and 'The Wealdstone Project' – A new civic centre is being planned for Wealdstone. The new, smaller building will be more efficient to run as well as delivering necessary services, housing and affordable workspace and improving the surrounding public realm. The project has reached RIBA stage 2 (concept design) and the target planning submission date was December 2017.

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 has been completed and approved by Project Operations Board. A business case is under review for Phase 2, which would potentially include a new Leisure Centre and other facilities for indoor/outdoor recreation and sport. This will be subject to Cabinet decision later in the year. A planning application was scheduled for December 2017. In parallel with the increase in build-to-rent units at Poets' Corner, the rental component in Byron Quarter Phase 1 has been reduced from 200 to 135. The remainder of Phase 1 will be delivered as homes for sale and private development.

Greenhill Way – A feasibility study has been produced showing options around high quality commercial and residential development including homes, offices, retail, hotel and leisure uses. Soft-market testing has demonstrated the opportunity to take this scheme to market and further market engagement is now planned prior to procurement of a development partner.

Haslam House – is a pilot project of 9 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 new contractor is being procured, in order to ensure that the Council achieves the best possible price for the delivery of this scheme.

Vaughan Road – this scheme is for 33 units of Council-owned build to rent accommodation and has secured planning approval. An extensive pre-application public engagement programme has recently been completed. The Council is in the final stages of appointing a contractor to deliver this development.

Waxwell Lane – A residential development is planned for the Waxwell Lane car park site. Following an extensive consultation programme, an options paper and RIBA Stage 2 (Concept Design) Report have been completed. Following a Cabinet decision in September 2017, the project was in detailed design and was submitted for planning approval in December 2017.

Roxeth Library – aims to provide an improved library facility along with residential development. A final response is awaited from the Ministry of Defence on the height limit for the nearby high priority Grange Farm site. The next step is to progress a feasibility review and an options paper to scope whether or not a development is viable within the current height limit for this site.

Harrow Arts Centre – following the wind-down of Cultura, the Council is reconsidering options for the future of the Arts Centre which retain cultural uses and recommend next steps whilst the centre continues to operate.

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. Phased handover starts in spring 2018 and continues for approximately 1 year. The project is currently on site and ahead of schedule.

District Heating Network – Following completion of the Energy Master Plan, a detailed feasibility study has been completed to establish the best method to deliver heat to the major regeneration sites. This includes an evaluation of the best location(s) 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 final decision will be taken on whether or not to proceed until a business case is complete. Related projects all have alternative energy strategies should the integrated network not proceed.

Case Studies

As part of the Regeneration Scrutiny Review we undertook research into other local authorities who were undertaking regeneration programmes. This provided members insight and evidence on the scale and financing of regeneration programmes across a number of London boroughs. The paper included councils that are closest in comparison to one another based on a set of indicators of the demographic and socio-economic nature of the borough, including: total population, tax base per head of population, % unemployed, retail premises per 1,000 population, and housing benefits caseload.

Closest comparator Councils with regeneration programmes include:

- Hillingdon
- Ealing
- Croydon
- Enfield
- Hounslow

In addition, the Chairman and Vice-Chair requested that information on the regeneration programmes in the following boroughs also be considered by the Regeneration Scrutiny Review Panel:

- Wandsworth
- Haringey
- Waltham Forest
- Barnet

Information on the councils listed above was prepared using a combination of information extracted from Council web sites, regeneration strategies, project reports, developer web sites, local press stories, and Regeneration Council officers. A complete copy of this desk research can be found at ‘A’.

Overview of Challenge Panels

Three Challenge Panels were held, on 27 September and 5 October 2017, and 27 February 2018. Members heard from and asked questions of the Chief Executive, the Director of Finance, the Divisional Director of Regeneration, the Leader and Deputy Leader of the Council. Detailed notes of all meetings (including all questions asked, and answers provided) are appended to this report.

The main discussion points were as follows:

Programme Rationale

Members heard from the Deputy Leader that there were five guiding principles to the Programme:

1. Providing housing
2. Providing jobs
3. Providing good education
4. Linking up with the NHS to provide excellent local services
5. Providing excellent local leisure facilities

Extensive consultation had been undertaken with the local population and stakeholders to frame the Programme. The Leader of the Council stated that he wanted the programme to tackle crime and ensure that the benefits of Programme are felt by all residents and businesses.

Borrowing and Spend to date

Members were advised that the Council had not borrowed anything to date and that officers hoped that there would not be a requirement to borrow over the next financial year. An update on this would be provided to the Cabinet in December.

The spend to date was £15m (in this financial year). This £15m spending includes land assembly, site purchase, engineering contracts and capitalised time of the Regeneration Team. It also represents an underspend of the projected budget. The Director of Finance undertook to provide members with a forecast of all spend for the year end outside of the meeting; officers were currently working on revised Quarter 2 returns and would be in a position to provide accurate figures for this financial year.

Risk Management

Members queried whether wages could be capitalised for all projects and whether the capitalisation of wages had been included on the Council's risk register. Officers confirmed this was not the case, although more general risks related to potential project failure are included.

Recommendation 1
For the Programme's Risk Register to incorporate the capitalisation of wages in the Regeneration Programme including revenue risk

Officers explained that there were three levels to the risk management process: (1) project level discussions were held monthly; (2) programme level risks were recorded; and (3) utilisation of the corporate risk register. The Chief Executive further expanded that, in addition, there were macro level risks, Brexit, changes in legislation, changes in interest and borrowing rates, rental values, housing market changes to be taken into account.

Interest Rates

Public Works Loan Board (PWLB) rates were 2% short term and 2.7% for longer term loans; officers provided an assurance that they were keeping the model up to date in relation to interest rates changes, and explained that the Council would take on a loan at a fixed rate to mitigate against future changes to interest rates. The Chief Executive added that it was likely that interest rates would rise in the near future, so at the December Cabinet meeting, Members would be asked to consider various borrowing options. These options would include an option to lock in current rates for two years, issuing Bonds and borrowing from the European Investment Bank. The Deputy Leader stated that if interest rates rose to 5% then a return of 10% would be required (the current model is based on a 5% return rate).

Officers reinforced that this was a phased project, so there was scope for rephasing, scrapping a phase or delivering a phase in a different way if the financial climate changed significantly.

Modelling and Commercial Strategy

Members noted that at the point the Council borrowed there would be a revenue effect. Members also noted that there were a number of additional effects that had not been modelled or taken into account, including additional pressures on the NHS and council care services, refuse collection, education, transport infrastructure, a potential increase in crime (and more calls on policing). There were also potential benefits from increased council tax and business rates which were similarly not fully modelled at this stage.

The Chief Executive admitted that there was a need to look at all the social and economic effects, including increases in employment, business rates and apprenticeships – all of which would have a positive impact on the local economy. He continued that the Council had an infrastructure delivery plan, and that there was Community Infrastructure Levy (CIL) money to invest in infrastructure (it was projected that the Council will receive around £20-£22m over the next decade), but that more work was required on this. The Chief Executive added that all this modelling should be reflected in the December report to Cabinet.

A discussion took place around the need for health centres to be built as part of the Programme, perhaps in partnership with the private sector. It was suggested that this should be integral to the Programme in order to truly build a better Harrow.

Members raised the issue of the regeneration of Harrow Town Centre; Debenhams was detached since the opening of St. Ann's and St. George's Centres. The local businesses were successful but for the larger companies the demographic and economic profile was wrong. It was difficult to see how the Council could attract larger brands and companies to Harrow. If the Council wanted to attract more businesses to the Town Centre, it was imperative that it was businesses suited the profile of the population. The Deputy Leader agreed with this point and added that he would like to see an increase in retail and leisure facilities, and make Harrow a destination for food. He advised that talks had taken place with retail analysts who would recommend what should be provided. Members expressed concern that such analysis should have been done earlier in the development of the regeneration Programme.

The Deputy Leader further advised that he had been in discussions around shops in St. Ann's extending their opening hours, but the tenants are of the view that it would cost more to stay open than they would recoup in sales.

Members raised a general concern that there seemed to be a lack of joined-up thinking in relation to the Programme. Further, members were concerned that the issues that had not been taken into account to date would have a significant impact on the success of the project, so it was imperative that officers undertake the all encompassing modelling as a matter of urgency.

Recommendation 2

Officers to produce one report that includes all risks and mitigations in relation to the Regeneration Programme.

This report will include the impact of the expected increase in population will potentially have on the council, its partners and the borough.

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, in which sectors and in what numbers.

Infrastructure

Members probed as to the actions being taken to alleviate parking pressures. The Leader of the Council stated that this was a consideration of the Planning Committee for each application it received. The Chief Executive added that a report had been produced by Atkins, specifically on the Wealdstone area. Members again reiterated the need for a cumulative report that considered all of the increased demands on infrastructure – including transport, health, and education. Further, Members stressed, that good governance requires that this should include oversight of all the Regeneration Programme's impacts, including costs, benefits and finances, should be gathered in one place.

It was noted that there is a lack of employment and office facilities in Harrow, and it was accepted that this was not a new problem. It was also noted that there is no large industrial estate. Members asked what was being done to get large businesses into the local area. The Director of Regeneration Enterprise and Planning undertook to provide a written response to this (which was completed and submitted in October). In the same line of questioning at the second Challenge Panel, the Deputy Leader suggested that there was a need to engage with a developer who was familiar with the local area in order to develop a viable project.

Members raised the issue of London Northwestern Railways trains at Harrow and Wealdstone station, and stated that greater frequency, capacity and reliability would help underpin the Regeneration Programme. The Deputy Leader added that there had been discussions with TfL about improving bus network connectivity. The Deputy Leader also outlined his proposed express bus route to link Heathrow Airport to Luton Airport, via Harrow; even potentially operating this as a council run service. However, he reported that no progress had been made on this to date. Members queried as to whether a lobbying strategy for transport improvements was in place. The Leader agreed that there was a need for a more frequent London Northwestern Railways service and stated that he was in discussions around how to push to extend Crossrail to Harrow and Wealdstone. He continued that the train platforms were often nearly at capacity, and that he would continue to lobby around this, and could and would push harder. In relation to local job opportunities, the Leader suggested that more cross-party work could be undertaken.

Recommendation 3
For a comprehensive lobbying strategy be developed to promote improved transport links, including improved station facilities, increased train capacity, frequency and reliability, to central London and out of London.

Recommendation 4
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 Transport for London (London Underground Lines and London Overground), relevant Government Ministers, 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***, Chiltern Railways and Southern.***

Population Projections

Officers advised that 5,500 homes would be built over the period to 2026, which would see an increase of between 11,000 and 15,000 people; but some of that demand was already in the borough. The Chief Executive agreed that there was a requirement to consider the impacts of the population increase.

The Deputy Leader suggested that an objective of 3,500 new jobs was achievable. Members reiterated that long term jobs had to be created, in addition to short term jobs associated with the building phase of the Programme.

Recommendation 5

The Council to 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 in the short and long term.

Recommendation 6

For all relevant strategies produced by the Council to reference the Regeneration Programme and how they contribute to or are impacted by it.

Final Challenge Panel and New Recommendations

The final challenge panel took place on 27 February, 2018. Officers presented the panel with a detailed set of scenarios; a financial overview of the programme on a scheme by scheme and year by year basis. The challenge panel was an opportunity to review the regeneration strategy and the finance and risk management assessment for the overall strategy and the objectives themselves in light of further financial information following a revised indicative budget published in January. A discussion took place around the cost of borrowing, governance of the programme, the inter-relationships between different programmes, and risk management. Officers said they would be happy to take feedback on these scenarios and will build this into the programme.

The background into the 2017 Commercial and Financial Review of the Regeneration Programme was presented, which covered:

- Phasing and profiling of the programme
- Further commercial review of designs
- Peer review of approaches taken in other councils and organisations
- Further analysis of debt and cash flows
- Clarification of advice on the legal and tax implications
- Seeking advice on partnering structures.

The first Regeneration Capital Programme was approved in January 2017. Following the review, a revised indicative budget was taken to Cabinet in December 2017 with the final revised Programme budget being approved in February 2018:

	January 2017 Approved budget, (A) £'000s	December 2017 Update, (B) £'000s	February 2018 Approved Budget (C), £'000s	Variance (A)-(C) £'000
Gross Expenditure	349,096	292,252	295,171	(53,925)
Capital Receipts	(108,245)	(72,660)	(87,771)	20,474
Net Expenditure	240,851	219,592	207,400	(33,451)

In terms of revenue, based on the revised baseline (February 2018), the projected first year of positive cash flow is 2021/22. From now on the February 2018 budget will be referred to as the baseline which is based on the following assumptions:

- Poets Corner phase 1 – “de-risked” by re-phasing site into 3 sections
- Removal of the £2.3m Medium Term Financial Strategy (MTFS) saving to be reinstated in line with positive cash flows.
- Haslam House & Waxwell Lane sites are sold upon completion and capital receipt recycled back into programme (£1m & £3.4m net respectively.)
- Inclusion of the GLA grant receipt, in 2017/18, of £3.75m against Poets’ Corner Phase 1 – nothing goes into the model until receipts have been received.
- An estimation of Stamp Duty Land Tax liability of £8.2m where applicable.
- Review of the Management and Maintenance cost assumptions resulting in increases from £650/unit to £750/unit.
- Start on Site and projected completion dates have been updated to reflect their current assumptions.
- To aid transparency, Value Engineering savings, yet to be made, have been removed from the costs. Further design work to ensure that schemes reach their viability target is on-going.

Officers went through a summary of the programme over the next 8 years. There are contingencies worth over £13m built into this, which are on top of contingencies for build costs, as set out below:

		Capital Financing	
	Total Net Regeneration Expenditure	Interest @ 2%	MRP (2.7%)
2018/19	65,979,987	58,000	
2019/20	135,008,766	417,174	20,794
2020/21	(16,360,090)	1,952,407	150,141
2021/22	200,127	5,546,839	704,659
2022/23	200,126	5,546,839	2,012,483

- This baseline model assumes a positive cash flow in 2021/22, i.e. rental income/capital receipts will exceed capital financing costs to produce a positive cash flow (estimate £2m) – this could go up or down, but this is the current projection and will go back into the MTFS.
- Until positive cash flow, the revenue implications are funded by set aside capacity.
- Borrowing and expected capital receipts are reflected in the Treasury Management Strategy (Cabinet Feb 2018).
- Current model assumes borrowing at PWLB rates – there are other rates available, but this is likely to be the cheapest / easiest to access.

- The borrowing strategy, under development along with the programme, will work on the basis of a repayment mortgage, with the Minimum Revenue Provision (revenue set aside) being used to repay debt.

In relation to the rental market, members of the panel raised concerns about rental control of the private sector. This is a growing concern to programme managers too, and is being considered, but capital receipts will also be looked at. Changes to the property market have been remodelled so that the project has the ability to be flexible if there is a change in the situation. Officers accepted that expectations will need to be tested. Members suggested that Officers look look back at the impact of the 2008 crash as a test to apply to the modelling. Officers assured members that a critical path analysis was being scrutinised at the newly established Building a Better Harrow Board, with build to rent being a well-tested model, and that the principle is that the properties built will generate income long term.

Recommendation 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.

Members sought assurances on the credibility of programmes, and questioned whether scenario planning takes into account an extraordinary change of circumstances. Officers accepted that there is a limit to how much one can plan for change in circumstances, and the expected position is that projects such as Poets' Corner PH1 would be built on time. However, if there are difficulties with letting the units, there would have to be a review of the rental strategy.

Recommendation 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.

There was some discussion around a need for the programme to reflect the impact of any further delays and knowing when the Local Government Finance Bill will come into force – in particular to have a clear idea of what the impact of the business rates will be on two of the major sites in Harrow. Members recommended that the programme should be in a position to lobby the Department for Communities and Local Government in a non partisan way. In addition to this members felt it was important to reflect savings that could be made as a result of the move to the new Civic Centre due to reduced building maintenance costs and staff efficiencies.

Recommendation 9

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.

Recommendation 10

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.

Issues around governance of the programme were discussed, and members asked whether the correct level of skills and capacity existed in the regeneration team to deliver the programme. Officers commented that a piece of work is currently being undertaken which will look at the skills and capacity in the regeneration team. External advice will also be taken in respect of this. Governance arrangements have been strengthened since the publication of the interim report, with the establishment of a monthly Building a Better Harrow Board to take account at a strategic officer level that the regeneration programme including the critical path, skills and capacity, performance, and making sure recommendations are scrutinised before progressing. Officers commented that the Board has been set up at this point in the programme as it has entered a different phase, which required different governance arrangements and provides focus through the Corporate Strategic Board, looking at the entire regeneration portfolio, previously done through individual programme board arrangements.

Recommendation 11

To formalise governance arrangements for cross-party engagement on the regeneration programme post-election, and establishing 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.

Members queried how many risks would have not to be achieved in order for Risk 33 to materialise. Officers stated that if no rental income came in, then this would become a very serious risk due to the high value of this commercial scheme. However all risks are reviewed on a quarterly basis.

Recommendation 12

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 and where salaries have been capitalised and projects don't go ahead, requiring recharging back to the Revenue Budget

There was a discussion around potential political change; whether this had been reflected in the risk register, and if this had been aggregated into one risk. Officers stated that individual programme risk registers do exists in order to give more rigour in to the critical path analysis. Although a specific risk around a change of administration has not been documented officers are holding separate briefing sessions with councillors in the interim before the election.

Recommendation 13

To develop cross-party understanding of the critical of the regeneration

programme, and the timing of the "stop-go points".

A further discussion took place around integration into other strategic bodies, members were particularly interested in knowing how governance with other council strategies are integrated, for example with agendas around reducing crime and vice versa, and whether there is a formal process for this within the wider commercialisation strategy? Officers commented they have a close working relationship with the police and the secure by design service. One of the objectives of the Building a Better Harrow Board is to ensure all services are feeding into the regeneration agenda and take account of the regeneration programme at a strategic level in order to consider a critical path analysis and also review skills and capacity, as well as strategic financial management, and scrutinising any relevant areas before they get to members, this is supported by the individual programme boards of each project. Officers are now exploring how member engagement would fit into this, possibly through the Major Developments Panel, which would involve taking major risks and proposals for cross-party recommendation and to discuss it fully and openly. In the lead up to the local election, all briefing sessions are running separately.

Recommendation 14

To ensure that other related bodies, such as the Health and Well-being Board, CCG, Safer Harrow, Harrow Youth Parliament, and all relevant and significant partners have an integrated approach to the Council's regeneration strategy.

In relation to rising interest rates, members recommended the programme should progress quickly now otherwise it risks becoming self-defeating. Whilst recognising this as an issue, officers said that they have to be mindful that when borrowing, getting the right amount back is also factored in. Currently the 'cost of carry' is not in the model.

Recommendation 15

To continue to monitor and assess risks in relation to the likelihood of further interest rate rises.

Members queried whether borrowing from the European Bank was still an option, and whether other alternatives, such as bonds had been considered. Officers are currently exploring the most cost effective options, and are cautious of high management costs and low likelihood of successfully borrowing from the European Investment Bank.

Recommendation 16

The panel recommends that borrowing is not delayed by pursuing unrealistic borrowing opportunities.

A discussion took place in relation to a transport lobbying strategy and whether work has started to develop this. Officers stated that a strategy is being developed and TfL are being actively lobbied, with success of step-free access at Harrow-on-the-Hill. More work is being developed to gain step-free access at Sudbury Hill mainline station and South Harrow underground stations, and regionally, work is taking place with West Trans through the West London Alliance. Expansion of step-free access, whilst welcome, will simply increase the demand, in addition to that created by new development, for those stations without addressing their limited capacity to handle extra passengers. However, officers said that the there is a need to document the situation at Harrow and Wealdstone station, which will mean developing a bank of data over the next 2-3 months.

Recommendation 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.

Notes of final Challenge Panel held on 27 February 2018

Regeneration Scrutiny Review Panel
Meeting 3

MINUTES

Date and Time of Meeting	**Tuesday 27th February – Committee Room 5, Civic 1, Civic Centre 17:00-19:00**
Scrutiny Members Present	**Councillors Barry Macleod-Cullinane (Chair) (BMC), Ghazanfar Ali (Substitute Vice Chair) (GA), Richard Almond (RA), Jeff Anderson (JA), Norman Stevenson (NS), Anne Whitehead (AW), Georgia Weston (GW)**
Apologies	**Councillor Sachin Shah, Councillor Susan Hall**
Members Present	**Councillor Adam Swersky (AS)**
Officers present	**Dawn Calvert (DC), Paul Nichols (PN), Paul Walker (PW), Shumailla Dar, Marzuki Haji – Policy Officers**

1. Welcome and Introductions

The Chairman welcomed officers and councillors to the final challenge panel. The meeting has been convened to schedule a report in time for Cabinet March 2018. BMC expressed his grave disappointment that the Leader of the Council, who had been expected to join the panel, had declined at extremely short notice, due to a meeting with the Harrow Youth Parliament. The Chairman acknowledged that Councillor Kendler will be stepping down as Vice-Chair and gave thanks for his contribution in the review to date. Councillor Whitehead confirmed that she will be stepping in as substitute Vice-Chair.

PW introduced the presententation a to the panel; a detailed set of financial scenario's, a financial overview of the programme on a scheme by scheme and year by year basis. PW stated that this is an opportunity to review the finance and risk management assessment for the overall strategy and the regeneration objectives themselves. Officers said they would be covering financial modelling based on a set of assumptions to give assurances and transparency of the budget. They will be discussing the disposal of Haslam House;

stamp duty; budget position; assumptions that have been made for capital receipts; governance and the newly established Building a Better Harrow Board (BBHB). They also discussed including the work being done around the Depot, housing, the inter-relationships between different programmes, and impact of decisions on these programmes. Officers said they would be happy to take feedback on these scenarios.

DC set out the background to the 2017 Commercial and Financial Review of the Regeneration Programme and the presentation went through the areas covered by the review:

- Phasing and profiling of the programme
- Further commercial review of designs
- Peer review of approaches taken in other councils and organisations
- Further analysis of debt and cash flows
- Clarification of advice on the legal and tax implications
- Seeking advice on partnering structures.

The first Regeneration Capital Programme was approved in January 2017. Following the review, an revised indicative budget was taken to Cabinet in December 2017 with the final revised Programme budget being approved in February 2018:

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- An estimation of Stamp Duty Land Tax liability of £8.2m where applicable.
- Review of the Management and Maintenance cost assumptions resulting in increases from £650/unit to £750/unit.
- Start on Site and projected completion dates have been updated to reflect their current assumptions.
- To aid transparency, Value Engineering savings, yet to be made, have been removed from the costs. Further design work to ensure that schemes reach their viability target is on-going.

DC went through a summary of the programme over the next 8 years (appendix 1 of the Scrutiny report). There are contingencies worth over £13m built into this, which are on top of contingencies for build cost inflation.

DC went through the slide 'Financing the Regeneration Programme':

		Capital Financing	
	Total Net Regeneration Expenditure	Interest @ 2%	MRP (2.7%)
2018/19	65,979,987	58,000	
2019/20	135,008,766	417,174	20,794
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- The baseline model assumes a positive cash flow in 2021/22, i.e. rental income/capital receipts will exceed capital financing costs to produce a positive cash flow (estimate £2m) – this could go up or down, but this is the current projection and will go back into the MTFS.
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- Current model assumes borrowing at PWLB rates – there are other rates available, but this is likely to be the cheapest / easiest to access.

- The borrowing strategy, under development along with the programme, will work on the basis of a repayment mortgage, with the MRP (Minimum Revenue Provision) (revenue set aside) being used to repay debt.

Questions were invited

RA – What's short term and what's long term with regard to interest rates?
DC – Short term is 6 years. The model assumes a mixture of long and short term, at the moment 4.7 in terms of short term borrowing and 5.4% for longer term debt. , So we need to borrow at the right time to lock in the best deal.

RA – Will the Waxwell Lane figure be ploughed back into the overall scheme?
TK – Loss of income from car parks are built into revenue implications. Capital receipts cover bill costs.

RA – The estimated cost of financing the debt is around £5.5m by 2021/22, does this include servicing the debt or other outgoings?
DC – The interest cost is £5.5m. MRP is £2m and the two together is the cost of servicing the debt. The model accounts for all outgoings.

RA – Does the Waxwell Lane scheme take into place the certain amount of loss of car parking income over the years?
TK – This has been built into the revenue implications. In terms of build cost, the capital receipt takes this into account, this includes marketing and any build costs. Any loss of income is factored into revenue.

BMC – At a previous meeting, the previous Chief Executive talked about borrowing from the European Investment Bank at a lower rate, but your presentation is all about using PWLB – are we looking at using alternatives, such as bonds?
DC – Yes we are we need to look at their interest rates alongside their management fees; we are looking at what could be the most cost effective option.

BMC – We have now had the interest rate rise since our last meeting, if we don't progress things it will become more costly and this is almost dragging otherwise this becomes self-defeating.
DC – Absolutely right, interest rates are increasing but very marginally. . We have to be on top of this now and look at the best time to borrow as there is a cost to carry money. If we borrow too early, reinvesting the money in the short term is unlike to attract a comparable interested rate. We have to be mindful that when we borrow we need to make sure we minimise the cost of carry. The 'cost of carry' is not in the model.

GW – Is £13m contingencies enough? It seems like a low amount.
PW – That's in addition to the contingency for each individual programme.

NS – Back in September when the previous Chief Executive was questioned, he suggested that the European bank was an option, but this doesn't seem the case, is that because of Brexit?
DC – Some of the doors have shut on this. The European Investment Bank wouldn't fund the whole regeneration programme.
PN – It seemed like it was an option for part of the programme, so they wouldn't fund market housing for example, but would fund infrastructure and social housing. But Brexit has had an impact on this.

Officers went through the scenarios:

Scenario 1:

	Baseline, £'000s	Scenario 1a £'000s	Scenario 1b £'000s
Gross expenditure	295,171	296,457	300,149
Cap receipts	87,771	87,771	87,771
Net expenditure	207,400	208,686	212,378
Pressure from net base expenditure		1,286	4,978
Loss of rental income		2,913	9,624
Year of Positive CF	2021/22	2021/22	2022/23
Start on Site :			
New Civic	September 2018		
Byron Quarter	January 2019		
Poets' Block A	April 2020		
Poets Block B	July 2020		
Poets Block G	September 2018		

This scenario shows the impact of deferring the start on site of the 3 main sites by 6 months and 12 months. This results in an increase in net capital expenditure of £1.28m & £4.98m over the life of the programme due to an increase in capital development overhead costs, netted off against a reduction in capital financing costs in the short term.

Revenue impact: Loss of rental income £2.9m & £9.6m respectively.
Positive cash flows delayed until 2021/22 & 2022/23

Delays to the programme have the maximum impact on the programme.

BMC – We would like to know more about worse case scenarios if sales market disappeared.
PN – We have modelled changes in the property market so can model any percentage. Our reliance is on the rental market rather than on the For Sale market. A freeze in the For Sale market can put upward pressure on the rental market. A 20%-30% drop in prices could be modelled although it is extremely unlikely on the rental side.

BMC – We should look back at the impact of the 2008 crash on the rental market side of things, as a test to apply to the modelling.
PW – scenario 6 starts to set this out. Critical path analysis is being scrutinised at the BBHB.
AS - Build to rent is a well-tested model. We need to understand where we are losing flexibility and manage cash flows. The principle is that the properties we build will generate income long term.

BMC – The programme must reflect the impact of any delays on the programme and should include a risk rating for business rates at the current amount for Civic Centre and Kodak, so this needs to be added to the analysis, so this needs to be removed from the analysis.
AS – We need to absolutely consider this, but we don't know the exact date for this happening or the timing of a Local Government Finance Bill.
BMC – We are going to be in this situation, but we need for the administration to lobby the DCLG on this, because this is not a partisan thing, but whatever the exposure is needs to be built into the programme.

NS – How will rental control of private sector affect the programme?
PN – Rental controls is of concern and this is being considered, but capital receipts will be looked at as well. Rental controls being considered are capping future increases to inflation – which is not inconsistent with our modelling. We have remodelled changes in the property market so that we have the ability to change it as and when the situation changes. Our concern is around the rental market. The real make or break factor is what happens to the rental market in London. We absolutely accept that we need to test expectations.

BMC – Can I suggest we look back at the 2008 crash? It might be worth checking what happened on that in Harrow on the rental side.
PW – scenario 6 starts to set this out. The Critical path analysis is being scrutinised at the BBHB.

BMC – The programme needs to be prepared to consider a crash scenario before and after this point.
AS – Build to rent is a slightly less tested market. The key part is development and losing flexibility. But these properties will continue to rise. If there is a dip in the market then as a

public sector body we have a privilege to provide housing at a fixed rate, as long as we can cover our costs.

NS – How will we measure the value of these? The new government could mean controls on private sector and income going forward - would like this reflected.
PN –Our risk register captures risks you have mentioned on sales values – it is a potential concern and we are alert to this.
AS – We have looked at the affordability of housing, but the privilege is of public sector to enable housing.

GW – What would be reason we would expect to have delays in projects?
PN – Some delay is within the bounds of credibility, for example planning, procurement delays, challenges in that process with contractors, due diligence, etc. It is important we model delays. Planning delays can occur, even though mitigations are in place. Procurement can take longer than anticipated due to challenges.

GW – So not around raising funds, but they are more about external risks? Can you build in fines for delays?
PN – One of the risks is in the procurement process, when you can't penalise the contractor as you haven't contracted them yet. Contracts will penalise delay.

BMC – One of the issues is around capacity of skills and experience to build this programme – making sure we have the right expertise to manage contracts. Do we have the right capacity and skills base?
PW – We are just about to start on a piece of work which looks at the core skills and capacity in the regeneration team and external specialist knowledge and skills required to take account of the next phase of the programme. And consider learning from previous tender / contractual arrangements.

RA – scenario 6 mentions an element of voids in the base model - is it based on normal levels or does it take account of extraordinary level of vacancy?
TK – it is based on 100% voids in the year.

BMC – Will we have this on the council's key risk register? Is this being properly captured back into the revenue budget?
PW – We are ensuring this is happening. Broadening out the risk register to take a corporate perspective that builds on the core regeneration element and Council's risks overall.

BMC – Does it take into account all risk costs? These costs are rising.
DC – We are not assuming any costs until they are quantified.

BMC – Are net extra costs from the current civic centre built in?
DC – No assumptions are being made on savings as a result of moving to a more cost efficient building until they are quantified.

BMC – It would be helpful to quantify some of this, e.g. 6 month delay in moving civic and associated maintenance costs.

AS – Another point we don't mention is the improvement of the new building, it's an important point to try and capture.
DC – At the moment we are not assuming any savings on the current building.

BMC / GW – It's helpful to quantify maintenance costs, whilst we are waiting to move to the new building – usually this would increase if the building is so old.
PW, PN, DC – Agreed.

RA – Does scenario 6 take into account an extraordinary change of circumstances?
PN – There is a limit to this, but this is assuming something has gone badly wrong. The likelihood is that if Poets Corner PH1 is built on time, but there are difficulties with letting the units, there would be a review of the rental strategy to secure early lettings.

GW – Doesn't dumping a big site in one place reduce rents?
PN – That's why we are phasing these developments in order not to flood the market.

BMC – Are we borrowing enough money?
PW – We are taking a sensible approach to delivering this programme. An important factor for us is what year does the Council start to make a return on investment? Based on the current strategy we are looking at a positive contribution to cash flow by 2021/22.

BMC – We didn't have a transport lobbying strategy and if we did have this, you could potentially have more people coming into Harrow with accessibility into London. This would increase people living in Harrow and unlock the value of Harrow. Had we done that, and should we have borrowed more to invest into this? Do we have time to draw up a transport lobbying strategy and run with that?
PN – We do actively lobby TfL. One goal achieved is step-free access at Harrow on the Hill. A strategy is being developed for future lobbying. The Sudbury Hill step free access scheme is moving in the right direction. Some work is being done with Mainline for Greenford. Next targets are South Harrow and Rayners Lane. Regionally, work is taking place with West Trans through the WLA – that's a really important vehicle in trying to influence mainline providers. We accept that more emphasis is needed on lobbying for Harrow & Wealdstone station, but we need to be tactical about this, and need to document the situation at Harrow and Wealdstone and need to be specific on what service improvement we actually want. Is it longer trains, more frequent service? Are there signalling or other infrastructure constraints? We need a bank of data to support our case. We are putting together a brief to be delivered over the next 2-3 months, and on the back of that we can start writing letters and explore opportunities to undertake face to face lobbying. That also puts us in a good place to update the borough's transport strategy. This will firm up the political lobbying position.

RA – What are we doing with Network Rail and Chiltern?
PN – Currently considering Sudbury Station step free access. As discussed we need to develop our lobbying strategy further and tick off our targets as this develops.

BMC – When we went over to Barnet, they were doing this lobbying before the build.
PN – Brent Cross is a very different situation, as that scheme includes a huge new trip destination of over 1m sqft. Harrow's programme has a much more gradual change in terms of rail demand, which is not as big as Brent Cross.

RA – Is it still the case that we don't have any meetings with Chiltern?
PN – I was assured that we are in communication with Chiltern over Sudbury Hill.

NS – I think we should be more bullish about this. We should be working with all these agencies telling them that we are building all these homes, what are they doing about it? We should have more partnership engagement to get the community up and running.
JA – In terms of lobbying we need to address capacity of platforms to accommodate passengers. At peak times there are issues around the capacity of the Bakerloo line platforms. In terms of lobbying with the relevant people, this issue needs to be addressed.
PN – We accept that there is more for us to do on the lobbying strategy. Our job is to make the case and make it an attractive proposition to invest.

BMC – How is governance of the overall programme being taken forward?
PW – We have strengthened our arrangements through the monthly Building a Better Harrow Board to take account at a strategic officer level that the regeneration programme including the critical path, skills and capacity, performance, and making sure recommendations are scrutinised before progressing. We could adopt and modify the major developments panel to engage cross party members. Separate briefing sessions are taking place with councillors in the interim before the election. Building a Better Harrow Board provides focus through CSB looking at the entire regeneration portfolio, previously done through individual programme board arrangements.

RA – Was there a lack of concentrated focus on this previously and lack of central drive that that's been set up to remedy?
PN – That was provided by the previous Chief Executive and now a new board has been set up for this. We have recognised that the regeneration programme has gone into a different phase, into building; it requires a different governance arrangement.

BMC – How do we integrate governance with other council strategies, e.g. reducing crime and vice versa. Is there a formalisation of this with regeneration, and how does regeneration sit within the commercialisation strategy?
PN – We liaise closely with the police and the secure by design service. One of the objectives of the Building a Better Harrow Board is to ensure all services are feeding into the regeneration agenda and take account of the regeneration programme at a strategic level in order to consider a critical path analysis and also skills and capacity, as well as strategic financial management. As well as scrutinising any relevant areas before they get to members, this is supported by the individual programme boards of each project. This strengthens officer governance arrangements. We are looking at where to include member engagement into this, it could be in the member development panel – where we take major proposals for cross-party recommendation and to discuss it fully and openly. At the moment running separate briefing sessions with both parties pre-elections.

RA – What was not being previously being done that the Building a Better Harrow Board has been set up to do?

PN – It looks at the entirety of the regeneration programme, picks up the depot site development, housing and schools, and takes a strategic perspective of the inter-relationship of these things.

BMC – We also need to engage the Harrow Wellbeing Board.
PW – Yes this is a key strategic board to take account the input of the CCG and Healthwatch.

RA – Risk 33: What are the core objectives and which, or how many, of them have not to be achieved for the risk to materialise?
DC – We have categorised it as a C1 because of the sheer scale of the programme and the monetary value. This is a very commercial scheme, it's very challenging, because of the sheer value of the scheme. Looking at worst case scenario, if no rental income came in we would have to say that's the assessment of it.

BMC – How have you accounted for political change in the risk register? Have project risks been aggregated into one risk – consideration should be given to separating risks for major schemes.
PW – There are individual programme risk registers in place which feed into to the critical path analysis. Regarding change of administration I am not sure we have not documented risk on register but are having conversations with both parties. *[Following the challenge panel the risk register was checked, and officers have confirmed that it is included].*

RA – Has the risk rating at Q2 changed as a result of the financial re-profiling?
DC – We are working on the quarter 3 update now.

RA – When you met us the first time you didn't anticipate any borrowing to fund any capital programmes.
DC – At the moment, no borrowings are anticipated for the remainder of the current financial year. We did have to take out some temporary borrowing over Christmas, but we have repayed this back. We are not planning on borrowing any money this financial year.

RA – When you met us the first time you said there had been no borrowing to date and you did not anticipate any borrowing to fund regeneration capital programmes during this financial year. Is that still the case?
DC – I would need to look at the phasing, but hoping not to incur capital financing costs in the first quarter.

BMC – Does the risk register take into account political manifestos, secondly is the regeneration programme reflected as one big risk or broken down into individual projects, such as one for the Civic Centre?
PW – We are working closely with both political groups in the lead up to the elections sharing progress and proposals on.

AW – Is there a percentage of build that we have access / control over for local people, for example affordable housing for families?
PN – We are alive to the risk of private housing being marketed externally and overseas. We have direct control over the build to rent projects and this will be primarily for Harrow residents. We are looking to enter into joint ventures with developers so that we have

some control over who the housing is ultimately targeted to. Cannot guarantee this, but these are measures to try and help this.

Final Recommendations

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;

2. That officers produce one report that includes all risks and mitigations in relation to the Regeneration Programme.

   This report will include the impact of the expected increase in population will potentially have on the council, its partners and the borough.

   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, 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;

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, 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.

6. That all relevant strategies produced by the Council reference the Regeneration Programme and how they contribute to or are impacted by it in order to ensure this is happening with an audit to the first post-election O&S, which should list all strategies and a timeline to ensure integration.

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.

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.

9. 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.

10. To formalise governance arrangements for cross-party engagement on the regeneration programme post-election, and establishing 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.

11. 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.

12. To ensure that other related bodies, such as the Health and Well-being Board, CCG, Safer Harrow, Harrow Youth Parliament, and all relevant and significant partners have an integrated approach to the Council's regeneration strategy.

13. To develop cross-party understanding of the critical pathways of the regeneration programme, and the timing of the "stop-go points".

14. To continue to monitor and assess risks in relation to the likelihood of further interest rate rises.

15. The panel recommends that borrowing is not delayed by pursuing unrealistic borrowing opportunities.

16. 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.

17. 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.