

## PART 2 – CONFIDENTIAL FACTS AND ADVICE

DD2212

### Title: Heart of Harrow Housing Zone, London Borough of Harrow – Poet's Corner Phase 1

*Information may have to be disclosed in the event of a request under the Freedom of Information Act 2000. In the event of a request for confidential facts and advice, please consult the Information Governance team for advice.*

#### The information below is not for publication until the stated date, because:

Under section 43 of the Freedom of Information Act information is exempt if its disclosure would, or would be likely to, prejudice the commercial interests of any person (including the GLA). Under section 42 of that Act information is exempt if its disclosure would, or would be likely to, involve the disclosure of information that is legally privileged.

Information captured in this document can only be withheld if the public interest in withholding it outweighs the public interest in releasing it. The information below contains information relating to confidential assessments of the scheme and includes information which is commercially sensitive relating to the intervention and proposed Housing Zone funding for Poet's Corner; the proposed structure and terms of Housing Zone funding and confidential information relating to the proposed recipients of the funding.

This is all commercially sensitive information, the disclosure of which would, or would be likely to, prejudice the commercial interests of the London Borough of Harrow. Whilst there is a public interest in understanding the circumstances in which public money is provided to other bodies, it is considered that in these circumstances the public interest lies in maintaining the exemption and withholding the information.

If this information is considered for release pursuant to the provisions of the Environmental Information Regulations 2004, this information should be considered exempt information under regulation 12(5)(e) – where disclosure would adversely affect the confidentiality of commercial or industrial information where such confidentiality is provided by law to protect a legitimate economic interest.

Information about Harrow's approach to land ownership, valuations and delivery has been withheld as they are in the process of tendering partners to deliver the various phases of the site. Phase 2 may not have a delivery partner on board until 2020.

**Date** at which Part 2 will cease to be confidential or when confidentiality should be reviewed: **31 December 2020**

#### Legal recommendation on the grounds of keeping the information confidential:

The above represents a valid legal basis for not publishing the information set out in Part 2 of this Director's Decision. Ultimately it is for the GLA to decide whether to publish or not, however in this instance the decision to keep the information confidential is justifiable.

**Legal Adviser** – I make the above recommendations that this information should be considered confidential at this time

**Title:** Senior Associate – Property & Planning Law

**Date** 22 January 2018

*Once this form is fully authorised, this should be circulated with the Part 1 form.*

**Confidential decision and/or advice:**

This Director's Decision seeks approval for the provision of £3,000,000 of grant funding to the London Borough of Harrow for the acquisition of the freehold interest of Wealdstone Social Club, enabling the comprehensive redevelopment of all phases of the Poets Corner development project. Funding of £750,000 will also be granted to provide homes for supported housing, making the total funding to the London Borough of Harrow £3,750,000.

Poets Corner phase 1 includes land currently used for car parking and the Wealdstone Social Club and will deliver at least 123 affordable homes. Phase 1 requires the acquisition of the Wealdstone Social Club and this has been negotiated by the council. This intervention will provide the capital funds to cover the acquisition of the Wealdstone Social Club and meet requirements for SDLT and related legal and agency fees to deliver Poets Corner phase 1.

Harrow will be taking the role of lead developer for phase 1 and not looking to lose the value of the asset by selling to a private developer. Developing the site this way ensures they can benefit from a longer-term revenue position.

The review date is set at the 31<sup>st</sup> of March 2019 on the basis this is set as the start on site date for Phase 1, at which point all tendering work for contractual partners relating to delivery of this site will be complete. It is at this stage that any issues relating to commercial decisions of the council will be finalised relating to Phase 1 of this site.

Project due diligence was undertaken by Cushman and Wakefield through a review of a Housing Zone Development Appraisal Toolkit and supplementary information provided by the London Borough of Harrow. C&W's due diligence incorporates project appraisal, an analysis of the proposed development costs and a review of delivery milestones. Having reviewed the assessment report, GLA Housing and Land officers approved its findings and deem them to be sufficiently robust to justify GLA Housing Zone investment into the project.

The following information is a summary the assessment of the scheme by Cushman & Wakefield (C&W), dated 21 November 2017, with regards to Property due diligence:

## **1. Funding and Repayment**

### Contracting party receiving funding, responsibility for delivery and repayment:

LB Harrow will be the contracting party and will receive the grant funding for the acquisition of the Wealdstone Social Club. Harrow intend to deliver Phase 1 directly (through an OJEU compliant procurement of a contractor via LB Harrow framework) and is not seeking to enter into a JV arrangement for this phase of Poets' Corner, but are intending to enter into a JV for the later phases of the development. They are seeking a grant of £3.75m from the GLA which will not need to be repaid if the minimum outputs are achieved. Paul Nichol, Divisional Director Regeneration Enterprise and Planning at LB Harrow will be responsible for the delivery and reports directly to the Council's chief executive.

The majority of the scheme will be funded by a loan from the Public Works Loan Board (PWLb).

#### Details of Parent Company Guarantees & Credit rating

N/A - Housing Zone grant funding will be paid directly to LB Harrow. However, it will be important for the GLA to have confidence that LB Harrow agrees appropriate control over the development if a developer partner is chosen to help deliver the scheme.

#### Summary of project and intervention.

Funding is needed to unlock the development of Phase 1. £3m of funding will be used to off-set the cost of purchasing the Wealdstone Social Club which facilitates the development potential for the whole of the Poet's Corner development. £750,000 of grant funding will be used to provide 20 supported housing units in Phase 1 which the council would otherwise not be able to provide.

Planning permission is expected in mid-2018. Construction is not likely to start until March 2019 with practical completion reached in March 2022 and the scheme fully let by the end of 2022.

#### Description of intervention outcomes across the Poet's Corner development.

The intervention is needed for the following reasons;

- Redevelop the Council's own site
- Land assembly for full vacant possession
- Accelerate delivery of homes
- Provision of 20 sheltered housing units that the council would not otherwise be able to provide
- Provision of assets that would otherwise not be provided by the market (primary school, new civic centre, public realm)

#### Stakeholders

The following key stakeholders are due to be consulted on the plans: Council Leaders, TfL, Local residents, Harrow Central Mosque, Civic Centre users, GLA.

## **2. Ownership and Land Assembly**

#### Land acquisition, purchase price, ownership, and sites information

. £3m grant relates to the purchase of the Wealdstone Social Club Site:

- Purchase price: £2.8m net of VAT and purchaser's costs.
- Stamp Duty: £129,500 of stamp duty,
- Legal Fees: £10,000
- Total: £2,940,331

Additional valuation, design and surveys were carried out on site which the GLA agrees to cover. No further site acquisition is needed for Phase 1 of the development to which this grant funding relates.

#### Interdependencies

The Housing Zone funding is intended to contribute directly to enabling a comprehensive scheme that will regenerate the surrounding area and unlock development potential on a large site in Central Harrow. The scheme itself will be funded by a loan from the Public Works Loan Board (PWLb). Phase 1 will also benefit from a £5.04m contribution generated from Phase 2 of the scheme. Details of how this is likely to work in practice are still being finalised but suggestions include; requiring the JV to reimburse the council upon transfer of the Council's land into the JV, preferential profit distribution (i.e. first charge over the profit share) upon sale of the Phase 2 market sale units, or reflected in an increased land value realised as part of the profit share (without preferential distribution). Should for any reason the receipt of this income be delayed then LB Harrow would bridge the funding gap to ensure the scheme proceeds. LB Harrow have stated that they will take detailed legal and commercial advice on this point when going to market to ensure the optimal result for the Council.

#### Exit Strategy

There is no exit strategy as the units will be retained as PRS and affordable sale. LB Harrow will enter into a contractor relationship with a developer and so will maintain full control over the land and units at the end of the build.

### **3. Appraisal**

A cost plan dated 18th October 2017 has been submitted by LB Harrow which states the total build costs for the development as being £114,490,000. However, there are a number of exclusions including NHBC, Sales and Marketing and professional fees. The cost plan also excludes abnormals below ground (including disposal of non-hazardous and hazardous excavated materials, any ground stabilisation works and any enhanced foundations because of the ground conditions). However, LB Harrow have confirmed that extensive investigation to determine the ground conditions has been carried out, including boreholes and standard penetration tests, although unknowns will remain until excavation occurs. At this stage, a 6% contingency of £6.48m has been added to the base build cost. LB Harrow have stated that this is deemed to cover risks associated with this exclusion.

#### Market report

The market report for the Wealdstone Social Club is provided by LSH and dated 16th June 2017. It states the market value of Wealdstone Social Club as being £2.8m assuming an unencumbered freehold and a current class D1 use for the site. The sales price is supported by several comparables (5 of which are in LB Harrow). A general market report for the scheme has also been prepared by Lambert Smith Hampton (LSH) and Countrywide. A draft version of the latest report dated 2017 was provided and the report states that both the site and the unit mix being delivered are considered appropriate for the area. The report also states that there are 18,000 units in the planning system in all Harrow postcode areas and cautions against price falls. Although there are no private sale units in Phase 1 of this scheme LB Harrow should still maintain the ability to switch unit tenures should there be a slow down in the rental market in order to maintain absorption rate.

While the capital values are in line with those that LB Harrow have used the market rents adopted by LB Harrow in their cashflow are higher. This may be due to the more limited information that LSH/Countrywide had on the scheme but if appropriate the GLA should explore the impact on the scheme if rents are run at the lower values stated in the report. The LSH report suggests rents at lower levels for retail and managed office space than the levels used in LB Harrow's financial appraisal.

#### Valuations

The figure derived at for Phase 1 is assuming that the value is equally distributed across the site. However, the majority of Phase 1 is the Civic Centre car park. In addition, £2.8m for the Wealdstone Social Club site needs to be added to any book value for Phase 1.

#### Scheme Costs

All capital costs for the scheme will be fully funded by a loan from the PWLB.

#### Draw-down requirement, interest rates, fees.

PWLB will lend to LB Harrow at an interest rate of 2% although this rate seems low the Public Works Loan Board Annual Report and Accounts 2016-17 states that its average interest rate for loans on projects over 40 years is c.2.4%. In addition, the average interest rate for all loans made in 2016-17 was c.2.25%. Therefore, the rate offered to LB Harrow of 2% over a period of 50 years appears to be in line with market expectations. However, were LB Harrow to on lend this finance to another entity to develop the scheme they would need to lend at a market rate which would be around c.4.5%. LB Harrow have said that they will develop the units to benefit from the lower finance rate from the PWLB and then transfer the completed units to Concillium Assets Ltd subject to final legal and tax advice. If for legal reasons LB Harrow decide the units cannot be transferred at completion stage and instead must be developed by Concillium Assets Ltd or another entity this could impact the funding rate and potential viability for the scheme.

The GLA funding is being given as grant and therefore will not be repaid. C&W are not aware of any fees

needing to be paid by LB Harrow either for the loan from PWLB or for grant funding from. The scheme is 100% debt funded.

#### 4. Key risks, issues and mitigation.

The tables below cover the key known constraints/events that need to be resolved to avoid impacting the successful delivery of the project:

Top 3 issues requiring escalation			
<p>An issue is a problem which has actually occurred and either has a positive or negative effect on a project's chances of achieving its objectives.</p> <p>Issues should be RAG rated based on their overall impact: <b>Red</b> - issue is causing deviation from project objectives; <b>Amber</b> - issue has a minor impact on objectives; <b>Green</b> - issue has a negligible impact on objectives.</p>			
Description, including potential impact	Mitigation/issue response	Owner	RAG
Delay in agreeing additional fee for design team; team require additional fee given requirement for enlarged phase 1. The initial contract was for 200 PRS units in phase 1; latest phase 1 is now over 400 units. Impact: cannot proceed to planning or coordinate design refinements/changes.	Procurement and finance engaged and solution still being resolved - gateway 2 approved at PCB but awaiting final signatures. Proportional uplift in social value commitments is expected.	Adam Towle	R
Latest cost plan shows scheme viability just below target net initial yield. Design change coordination means delay in planning application submission so unlikely to gain permission before local elections in May 18.	Roadmap produced to commercial viability and target build rate and budget envelope revised and issued and being agreed with finance. Updated programme being developed and agreed with realistic application and decision date. Review contingencies and risk to ensure sufficiently costed.	Adam Towle	A
GLA have set deadline of contracting all Housing Zone interventions of 31 January 18. This gives max. 12 weeks to conclude all due diligence and contracting.	Legal to resource and engage with GLA. Progress due diligence and discharge conditions precedent ASAP. Additional resource to be brought onboard. If unable to meet the 31 Jan deadline this will lead to further negotiation on how GLA might support but a different route and under different approvals.	Adam Towle	A

Top 3 risks requiring escalation			
<p>A risk is an uncertain event or set of events that, should it occur, would have an effect on the achievement of objectives (time, quality, cost, scope, benefits)</p> <p>Risks should be RAG rated as follows: (probability) x (impact); where: <b>Red</b> = high likelihood/moderate to major impact; <b>Amber</b> = low to medium likelihood/moderate to major impact;</p>			
Description, including potential impact	Mitigation/risk response	Owner	RAG
Phase 2 doesn't achieve the required residual land values to ensure cost neutral new civic centre.	Delivery route being tested by LSH and being looked at as part of Regeneration Finance review. Team to stress test design, affordable housing commitments and RLVs. Phase 2 business case and delivery strategy being developed alongside.	Adam Towle	A
Council's long term energy and heating strategy unclear. Lack of resource on client-side to critique sub-consultants proposals and develop detailed M+E design.	Appoint client-side M&E Design Consultant ASAP to produce heat and power strategy for Phases 1 and 2, around scenarios that include phasing and a possible district heating system, and to advise client and scrutinise design proposal submitted by PBA.	Adam Towle	R
Stamp Duty and Land Tax and VAT implications unclear and could have negative impact on scheme viability.	Understand legal structure between LB Harrow and Concillium LLP re tax issues prior to planning application and procurement of D&B Contract.	Adam Towle	A

#### Project Dependencies

<b>Dependency</b>	<b>Impact</b>	<b>Mitigation</b>
Phase 2 does not make the required return	Cannot fund the share of the infrastructure in Phase 1	LB Harrow must retain flexibility in switching tenures in order to off-set a lack of demand by any one tenure
The scheme does not currently have planning permission to proceed	The scheme cannot proceed or gets permission for a far smaller scheme.	LB Harrow have engaged with the vast majority of the stakeholders in the project and have had at least 10 pre-app meetings with the planning department.
Several restrictive covenants exist on the site	If these were to be invoked this would slow down the development and may involve the payment of compensation to the beneficiary of the covenant.	These are largely historic the council should either seek to extinguish or indemnify themselves against the covenants.

## **5. Finance Comments**

See Part 1

## **6. Planned delivery and next steps**

### Key outputs, deliverables and timing.

There are currently two vacant residential units on site but C&W understand that these are located within the social club which will be demolished to make way for the new units. The units are due to be completed between August 2020 and July 2022 and all units should be fully let by November 2022.

With the intervention, Phase 1 of the scheme would deliver a minimum of 123 affordable homes within approximately 4 years, compared to c. 5.5 years if the council's CPO powers were used to acquire the site. In addition, a less comprehensive Phase 1 could have a knock on effect on the profitability of Phase 2 due to poorer place-making. Since Phase 1 is part-funded by a contribution from Phase 2, this could effect the viability of the scheme as a whole. LB Harrow have stated that if the scheme does not meet the required target yield they would not be able to proceed with this project. With the assumption of GLA grant funding LB Harrow have expressed that this scheme meets their target yield requirement but would not without it.