

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD1623

### Title: Brent Cross Cricklewood Thameslink Station – business rates funding

#### Executive Summary:

The early construction of a new Thameslink Station alongside critical infrastructure is required to fulfil the potential for housing growth in the Brent Cross Cricklewood Regeneration Project area. The London Borough of Barnet intends to borrow £155m to fund its share of the construction costs of the critical infrastructure to deliver the station, a new freight facility and improvements as established through the outline planning permission approved 2014. This borrowing will be financed and repaid using the expected growth in business rates in the area over a period of up to 12 years with an option for a 3 year extension if required. The GLA's share of business rates will go directly towards funding the station costs. The Mayor is requested to endorse the proposed funding arrangements for the station including the creation of a designated area under the 1988 Local Government Finance Act by the Secretary of State for Communities and Local Government which will allow LB Barnet to retain 50% of the business rates growth in the area for a period of up to 12 years with an option for a 3 year extension if required. This will in effect result in the GLA forgoing 20% of the uplift in business rates it would otherwise have received during the period through the retained business rates regime. However, it is important to recognise that these business rates would not otherwise arise without the redevelopment at Brent Cross.

#### Decision:

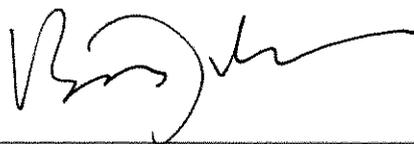
The Mayor:

- Endorses, in principle, the proposed funding package for the proposed new Thameslink Station at Brent Cross. This will include the creation of a designated area by the Secretary of State which will allow LB Barnet to retain 50 per cent of the growth in business rates income locally for a period of up to 12 years with an option for a 3 year extension if required in order to finance and repay the £155 million of borrowing it will be undertaking to finance its proposed contribution to the construction costs. The GLA's share of business rates will go directly towards funding the station costs. This would result in the GLA foregoing its usual 20 per cent share of growth under the business rates retention scheme in order to secure the delivery of the new station and elements of critical infrastructure. However, it is important to recognise that these business rates would not otherwise arise without the redevelopment at Brent Cross; and
- Delegates to the Executive Director - Development, Enterprise and Environment and the Executive Director of Resources to agree the detailed terms of the GLA's commitment to deliver this development and the associated legal and funding arrangements in consultation with LB Barnet, the Department for Communities and Local Government (DCLG) and the private sector partners.

#### Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority. The above request has my approval.

Signature:



Date:

17.3.2016

## **PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR**

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1 The Brent Cross Cricklewood (BXC) Regeneration Project area is divided into two sites – Brent Cross North and Brent Cross South – intersected by the A406. Brent Cross North is occupied by the Brent Cross Shopping Centre, owned by development partners Hammerson PLC and Standard Life. Brent Cross South currently contains a mix of uses, and is largely controlled by the London Borough of Barnet (LB Barnet). Extending to 151 hectares, the complete regeneration area is well connected by road – strategically located by the M1 and A406 (North Circular) – but poorly connected by public transport.
- 1.2 The London Underground stations nearest to the shopping centre are Brent Cross and Hendon Central, both on the Northern line. Both lack adequate pedestrian links and signage to the regeneration area and are a good 10 to 15 minutes' walk away through what is regarded as a hostile pedestrian environment.
- 1.3 Planning consent is in place for a comprehensive redevelopment of the area, to create a regional Town Centre, based on the agreement that both sites will be developed. The development plans are expected to deliver the following:
  - 1.3.1 Brent Cross North
    - A doubling in the size of Brent Cross Shopping Centre
    - 238 new homes and space for 8,000 new jobs
  - 1.3.2 Brent Cross South
    - Delivery of 7,272 new homes
    - space for 19,000 jobs
    - 467,255 square metres of commercial development
    - Health, sports and community facilities
    - New green spaces
    - New public spaces
- 1.4 The Brent Cross South development also includes the provision of a new Thameslink Mainline Station, which is vital to unlocking the growth potential of the site as well as forming part of the necessary transport improvements to support the regeneration. An Outline Regeneration Business Case for the whole of the BXC Regeneration Project was submitted to DCLG on 6 February 2015, and was considered by its Finance Sub-Committee on 11 February 2015. The Business Case clearly set out that the key deliverable to unlocking the regeneration of Brent Cross South and speeding up the delivery of the 7,272 new homes is through bringing forward the construction of the Thameslink Station from 2030, as originally planned, to early 2021. Alongside the station, elements of critical infrastructure are also required to unlock the full development potential of the Brent Cross South development.
- 1.5 The expected cost of delivering the station package of works, which includes the station, relocated freight facility alongside new pedestrian and cycle/road bridges over the railway to access the station and regeneration area is estimated at £215m (uninflated), with construction works expected to take place over the four years from 2016-17 to 2019-20. The Chancellor's Budget statement on 18 March 2015 confirmed the Government's in principle commitment to the BXC Regeneration Project through a combination of a £97m Government grant and the ring fencing of the local 50 per

cent share of business rate growth from the BXC Regeneration Project area to support the delivery of a new Thameslink station at Brent Cross and elements of critical infrastructure. LB Barnet has also agreed to contribute £155 million via borrowing towards the construction costs on the condition that it receives 50 percent of the business rates uplift in the area for up to 12 years with an option for a 3 year extension if required in order to finance and repay the debt. The GLA's share of business rates will go directly towards funding the station costs.

- 1.6 Under the business rates retention scheme introduced in April 2013 the GLA would normally retain 20 per cent of the growth in business rates income due to new developments across London – with 30 per cent being retained by the local billing authority in this case Barnet. The remaining 50 per cent is passed over to DCLG via the central share.
- 1.7 In order to facilitate the financing of the new station and infrastructure improvements LB Barnet will require the entire 50 per cent locally retained growth including the GLA's 20 per cent. The share of the business rates uplift expected from the growth in the BXC Regeneration Project area for the period outlined below will allow LB Barnet to finance the borrowing representing its contribution towards the construction of the station and elements of critical infrastructure. The Government is providing a £97 million grant to fund the project and therefore will in effect make a significant contribution directly.
- 1.8 In order to facilitate the 50 per cent local retention by LB Barnet the Secretary of State will make the regeneration scheme a designated area using the powers granted to him under paragraph 39 of Schedule 7B to the Local Government Finance Act 1988. The business rates growth retained will in effect be ring fenced and therefore exempt from resets within the rates retention system. The area will also benefit from any growth in rates income above the baseline when the designation is introduced arising from revaluations undertaken. It is anticipated that the designation will be required for a period of no more than 12 years with an option for a 3 year extension if required – the current estimate of the period required for LB Barnet to repay its borrowing. The required secondary legislation to introduce the designation will need to be approved by an affirmative resolution in Parliament.

## **2. Objectives and expected outcomes**

- 2.1 The strategic objective of this decision is to secure the completion of the Brent Cross Cricklewood Thameslink Station and critical infrastructure at an early stage of the BXC Regeneration Project in order to facilitate the housing value uplift potential of the Brent Cross South site in the early stages of the overall development. It will also enable key elements of the overall integrated transport strategy to be brought forward to support the regeneration programme as envisaged in planning permission thereby encouraging mode shift earlier in the programme. This will make a significant contribution to secure the completion of this strategically significant regeneration project as well as maximising the regeneration benefits.

## **3. Equality comments**

- 3.1 Under section 149 of the Equality Act 2010 (the "Equality Act"), as a public authorities, the Mayor and GLA must have 'due regard' to the need to eliminate unlawful discrimination, harassment and victimisation, and to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not. Protected characteristics under the Equality Act comprise age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage or civil partnership status (the duty in respect of this last characteristic is to eliminate unlawful discrimination only).

- 3.2 When considering the needs of the existing community and those that will be housed in the new residential quarter at Brent Cross, any resulting development must minimise disadvantages to all protected characteristic groups within society.
- 3.3 Those that may share a protected characteristic should be encouraged to fully integrate and therefore in designing the new residential quarter at Brent Cross it should accommodate and reflect the needs of the existing community and those that will be housed in the new residential quarter. This includes housing designed for those with physical disabilities and mental health problems and older persons. When considering the equality duty it may involve treating some person's more favourably with specialised housing.
- 3.4 The new station will be fully step-free and include all standard accessibility features.
- 3.5 This decision is not expected to have any negative impact on persons with a protected characteristic under the Equality Act.

#### **4. Other considerations**

##### Key risks and issues

- 4.1 The decision is not considered to pose a significant financial risk to the GLA, as the forgone business rates receipts are linked only to the uplift expected as a result of the BXC Regeneration Project itself. For more details, see financial comments below.
- 4.2 The GLA will put in place monitoring arrangements with the delivery organisations arising from TIFS as appropriate given the value of the contribution.

##### Links to Mayoral strategies and priorities

- 4.3 The London Plan identifies Cricklewood/Brent Cross as an Opportunity Area, and the BXC Regeneration Project is intended to develop the Mayor's commitment to realising the potential of the area. The London Infrastructure Plan 2050 identifies the need to build 49,000 new homes a year to meet the growing demand for housing and the existing backlog, and the BXC Regeneration Project is expected to deliver around 7,500 new homes.

##### Impact assessments and consultations

- 4.4 The Brent Cross Cricklewood Regeneration project has been subject to a detailed business case analysis, which has been reviewed by DCLG. The project stages will be subject to public consultation in due course.

#### **5. Financial comments**

- 5.1 The Mayor is recommended to agree, in principle, that the GLA agrees to forego its 20 per cent share of the increase in business rates arising from the redevelopment at Brent Cross for a maximum of 12 years with an option for a 3 year extension if required to help finance LB Barnet borrowing £155m to pay for a new Thameslink station and elements of critical infrastructure. This business rates growth forecast to be foregone by the GLA is estimated to be £117m. In practice this will be facilitated by the creation of a designated area by the Secretary of State using his powers under the 1988 Local Government Finance Act which will permit LB Barnet to retain 50 per cent of the growth in rates income over the 12 years with an option for a 3 year extension if required above the base position in year 1 – its 30 per cent share under the existing rates retention scheme plus the GLA's notional 20 per cent share. As such the estimated £117 million would be retained under secondary

legislation by Barnet and the funds would not pass through the GLA's accounts. It is proposed that this commitment will be set out in regulations to be agreed between the Government, LB Barnet and the GLA. However, it is important to recognise that these business rates would not otherwise arise without the redevelopment at Brent Cross and therefore if the station were not delivered the uplift in revenues would not arise at all. The GLA's share of business rates will go directly towards funding the station costs.

- 5.2 The risk that proceeds from business rates will be insufficient to meet LB Barnet's borrowing is the Borough's, not the GLA's, risk. If the business rates are sufficient to repay LB Barnet's debt earlier, then it is proposed that the designation would cease at that point with the GLA regaining its 20 per cent share from the beginning of the following financial year. If LB Barnet's debt is not repaid after 12 years, it is envisaged that the Government would consider an extension of the commitment with the support of the GLA for 3 years, assuming that there had been no circumstances in which LB Barnet had mismanaged the arrangements.
- 5.3 The risk of cost overruns on the total cost of the Thameslink station and elements of critical infrastructure of £384m (at outturn prices) lies with LB Barnet. However, LB Barnet has a clear break clause before commitments to borrow are entered into. Further, the base case has made prudent assumptions concerning contingency, voids and delays in receipt of business rates. They have also established a prudential borrowing test and provision to service interest costs prior to business rates arising.
- 5.4 Sensitivity analyses have been undertaken on business rates assumptions and a worst case and an alternative risk mitigation option have been developed. A worst case scenario would require business rates to be retained for 25 years to repay debt. A risk mitigation option might allow business rates from the development on Brent Cross South to be utilised to service debt.
- 5.5 The regulations to be agreed and introduced by the Government would be before 100 per cent devolution of business rates. The GLA and LB Barnet intend that transitional arrangements would be introduced to preserve the basis of the existing agreement once full devolution occurs. It is possible that the remaining 50 per cent currently payable to DCLG via the central share may also be retained by the GLA and LB Barnet in proportions still to be determined post the move to 100 per cent retention. This would need to be considered as part of the London wide negotiation with Government prior to the introduction of 100 per cent retention which is expected in either 2018-19 or more likely 2019-20.
- 5.6 The London Enterprise Panel has previously agreed to allocate £2.9m of New Homes Bonus to the scheme and as part of the final commercial negotiations the GLA has agreed to stand behind the commitments made by Transport for London to deliver certain proposed savings within the overall development at Brent Cross. As part of the commercial agreements, the GLA will have access to overage provisions in proportion to its commitment to the scheme should the developer's return on investment exceed an agreed sum.
- 5.7 In view of the above, the Mayor is recommended to delegate to the Executive Director - Development, Enterprise and Environment and the Executive Director of Resources to agree the detailed terms of the GLA's commitment to deliver this development.

## **6. Legal comments**

- 6.1 The report above indicates that the decision requested of the Mayor falls within the GLA's statutory powers to do such things considered to further or which are facilitative of, conducive or incidental to the promotion of economic development and wealth creation, social development or the promotion of the improvement of the environment in Greater London; and in formulating the proposals in respect of which a decision is sought officers have complied with the Authority's related statutory duties to:

- 6.1.1 Pay due regard to the principle that there should be equality of opportunity for all people;
- 6.1.2 Consider how the proposals will promote the improvement of health of persons, health inequalities between persons and contribute towards the achievement of sustainable development in the United Kingdom; and
- 6.1.3 Consult with appropriate bodies.
- 6.2 The Mayor delegates authority to the Executive Director – Development, Enterprise and Environment and the Executive Director of Resources to finalise the funding arrangements described above in a compliant manner and to address any relevant legal issues. Officers will work with TfL legal to ensure that appropriate agreements are put in place with the London Borough of Barnet. The agreements should document the arrangements described above, including the consequences if LBB’s debt is repaid early.
- 6.3 Officers should participate in the drafting of secondary legislation so far as possible and liaise with TfL legal in order to ensure that such secondary legislation reflects the arrangements noted above. Officers should consider how the secondary legislation captures the duration of the arrangement and how the duration of the arrangement is managed if LBB’s debt is repaid earlier or later than anticipated.
- 6.4 With regard to the changes to retention of business rates mentioned at paragraph 5.5, currently anticipated in 2018-2019, any arrangements with regard to the sharing of one hundred per cent of business rates will need to be subject to a separate mayoral decision in parallel with the implementation of legislation for such changes.

**7. Investment & Performance Board**

The proposal was approved in principle by IPB at its meeting on the 11 March 2016

**8. Planned delivery approach and next steps**

Next steps include progressing the detailed design and land assembly and necessary consents to deliver the work packages. This is being undertaken jointly with Network Rail and with close involvement from public sector partners alongside LB Barnet development partners to ensure an integrated approach.

<b>Activity</b>	<b>Timeline</b>
Station / Infrastructure Procurement of contracts	2017
Station / Infrastructure Delivery Start Date	Early 2018
Station / Infrastructure Delivery End Date	Late 2021

**Appendices and supporting papers:**

*A full BXC regeneration business case has been compiled and used to inform this Decision, but is private and confidential at this stage.*

**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will either be published within one working day after approval or on the defer date.

**Part 1 Deferral:**

**Is the publication of Part 1 of this approval to be deferred? YES**

If YES, for what reason:

To coincide with LB Barnet announcement

Until what date: 18<sup>th</sup> March 2016

**Part 2 Confidentiality:** Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

**Is there a part 2 form – NO**

**ORIGINATING OFFICER DECLARATION:**

Drafting officer to confirm the following (✓)

**Drafting officers:**

Tom Layfield and Margaret Kalaugher have drafted this report in accordance with GLA procedures and confirm the following have been consulted on the final decision.

✓

**Assistant Director/Head of Service:**

David Gallie has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

**Sponsoring Director:**

Fiona Fletcher-Smith has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

**Mayoral Adviser:**

Sir Edward Lister has been consulted about the proposal and agrees the recommendations.

✓

**Advice:**

The Finance and Legal teams have commented on this proposal.

✓

**EXECUTIVE DIRECTOR, RESOURCES:**

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature

*M. D. [Signature]*

Date

11.3.16

**CHIEF OF STAFF:**

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

*Edward [Signature]*

Date

11:03:2016

