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| Meeting | Cabinet Resources Committee |
| Date | 17 July 2012 |
| Subject | Grahame Park Area Regeneration Project |
| Report of | Leader of the Council |
| Summary | <p>The report seeks to update Cabinet Resources Committee on progress with the next phase of the Grahame Park regeneration scheme, including discussions with the Homes and Communities Agency regarding the Get Britain Building programme, and with the Greater London Authority on accessing funds from the London Growth Fund. In addition to any external funding, the report seeks Cabinet approval to invest £5m in the Grahame Park Regeneration Scheme in order to underwrite viability of Phase 1b of the scheme. The report also updates on the proposed relocation of Barnet and Southgate College onto a site within Grahame Park, going forward, the report updates Cabinet on plans to review the master plan and delivery phasing for the next major stage of development at Grahame Park - Stage B - which includes the Concourse.</p> <p>To further underwrite success of the Grahame Park scheme within the context of the wider regeneration of Colindale, the report also seeks Cabinet approval to invest in Colindale Avenue to improve the public realm.</p> |

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| Officer Contributors | Andrew Travers (Deputy Chief Executive) John Hooton (Assistant Director of Finance, Strategic Finance) |
| Status (public or exempt) | Public |
| Wards affected | Colindale |
| Enclosures | None |
| For decision by | Cabinet Resources Committee |
| Function of | Executive |
| Reason for urgency / exemption from call-in | Not applicable |

Contact for further information: Stephen McDonald, Interim Lead Commissioner for Enterprise and Regeneration, 020 8359 7607.

1. RECOMMENDATIONS

- 1.1.1 That the Committee note progress on the Grahame Park regeneration scheme as set out in this report.**
- 1.1.2 That, subject to securing from the Homes and Communities Agency for Get Britain Building equity funding, approval is given for the Deputy Chief Executive to agree the necessary changes to the Grahame Park Principal Development Agreement to allow this funding to be accessed.**
- 1.1.3 That, subject to the receipt of Get Britain Building funding, the Deputy Chief Executive be authorised to agree the terms of the Council investment of up to £5m into the Grahame Park Regeneration Scheme to be match funded by Choices for Grahame Park Limited (“CFGP”) to underwrite sales risk.**
- 1.1.4 That the Committee approve the expenditure improvement works to Colindale Avenue to bring forward the regeneration of the area.**
- 1.1.5 That the Deputy Chief Executive be authorised to negotiate (in conjunction with the Council’s development partner for the Scheme, CFGP) with Barnet and Southgate College the terms to deliver i) a new college in the area known as Phase 1b of the Grahame Park Estate Regeneration Scheme and ii) a land swap agreement to develop the existing Barnet College site for residential development to ensure retention of the College in the area as a key element in the regeneration of Colindale.**
- 1.1.6 Subject to 1.1.5, that the Leader of the Council and the Deputy Chief Executive be authorised to agree the variation of the Grahame Park Principal Development Agreement to facilitate the relocation of the Barnet and Southgate College within Grahame Park (site 1b).**
- 1.1.7 That the Committee note the proposed review of the masterplan for the next stage (Stage B) of the Grahame Park Regeneration Scheme.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Planning and Environment Committee, 8 September 2004. (Decision item 8) – approved outline planning permission for the regeneration of Grahame Park, with the completed Section 106 Agreement securing substantial local community and infrastructure benefits signed on 23 January 2007.**
- 2.2 Cabinet, 24 July 2006 (Decision item 5 and Decision item 11) – authorised the entering into a Principal Development Agreement (PDA) with Choices for Grahame Park (CfGP) Limited (or subject to the approval of the Deputy Chief Executive in consultation with the Cabinet Member for Regeneration and Development, an alternative company within the Genesis Housing Group) and Paddington Churches Housing Association for the regeneration and redevelopment of the Grahame Park area.**
- 2.3 Cabinet, 22 February 2010 (Decision item 9) – approved and recommended to Council to adopt the Colindale Area Action Plan (AAP), which includes strategic planning policy and targets for the regeneration of the Grahame Park Estate and wider Colindale Area.**
- 2.4 Council, 2 March 2010 (Decision item 146) – approved and adopted the Colindale AAP as a statutory planning document within the Local Development Framework.**

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 Grahame Park is a key element of the regeneration of Colindale, which will result in the provision of 10,000 new homes over the next 15 years. Colindale represents one of Barnet's priority regeneration areas, consistent with our overall objective of *protecting, enhancing and growing* the borough.
- 3.2 Specifically, the proposals in this report will bring forward development along Colindale Avenue and the highly visible junction of Lanacre and Grahame Park Way thereby driving confidence in the regeneration in Grahame Park in particular and Colindale in general. Conversely, without a major investment in Grahame Park, the estate would continue to deteriorate and be left behind as new developments, such as neighbouring Beaufort Park, transform the rest of Colindale
- 3.3 Investment in Grahame Park is also consistent with the Council's ambition to build a stronger economy in Barnet and through this underscore the Council's financial position as local authority funding moves to a risk and reward basis. Within this new environment, it is imperative that the Council does everything within its power to foster growth. Specifically, bringing forward development at Grahame Park as proposed in this report will improve the Council's Business Rate base and increase Housing Bonus revenue.
- 3.4 The regeneration of the Grahame Park estate supports the Corporate Plan 2012-2013 priority of 'A successful London Suburb' and the strategic objective under this priority to *sustain Barnet as a successful place through regeneration, and supporting enterprise and employment*.
- 3.5 The regeneration of the Grahame Park regeneration estate also supports the 'One Barnet - A Sustainable Community Strategy for Barnet 2010–2020' through the following objectives:
1. A new relationship with citizens - the new developments will offer more choice and promote independence by providing a number of different housing options such as shared ownership to residents and those in the wider community.
 2. A one-public-sector approach - the Council is working together with other public sector partners to ensure the delivery of the schemes.
 3. A relentless drive for efficiency - the Council is working with development partners to ensure that the schemes are delivered in the most cost effective way.
- 3.6 The regeneration scheme also complies with strategic objectives in the Council's Housing Strategy 2010-2025 which include:
1. Increasing housing supply, including family sized homes, to improve the range of housing choices and opportunities available to residents; and
 2. Promoting mixed communities and maximising opportunities available for those wishing to own their home.

4. RISK MANAGEMENT ISSUES

- 4.1 The Grahame Park Regeneration Scheme has reached a critical point. While the economy remains fragile, elements of the next phase of Grahame Park – notably Phase 1b(ii) and 1b(iii) remain sub-viable. Hence, progress at Grahame Park will continue to stall if the parties to the scheme, notably Genesis (through CfGP) and the Council, along with the Homes and Communities Agency (HCA), do not make a further investment in the scheme to maintain momentum. Consequently, the proposals contained within this report are designed to mitigate this risk.

- 4.2 Investment proposals in this report are predicated on Grahame Park securing Get Britain Building (GBB) funding. If GBB is not awarded, Genesis has indicated that it will not proceed with Phase 1b (ii) and (iii). Discussions with the HCA have been very positive to date; a report is being prepared for HCA's Board once financial due diligence has been completed and Heads of Terms have been agreed.
- 4.3 A key risk associated with bringing forward all the sub-phases in Phase 1b at once is the increased sales risk. At present private sales rates at Grahame Park are low and this is affecting the ability for Genesis to internally recycle capital within the scheme to commence later phases of the project. The introduction of a more extensive shared equity product (see paragraph 9.1.13) is specifically designed to significantly mitigate this risk. In addition, relocating the Barnet and Southgate College to Phase 1b (see paragraph 9.1.25 below) reduces this risk by reducing the number of homes for private sale by 57.
- 4.4 There is a risk that the Council will not recoup all of its Shared Equity investment if there is a reduction in the value of the properties at the time they are sold. The Council does not anticipate this risk as significant, as shared equity owners are unlikely to seek to sell their property unless capital values have been maintained or improved. Moreover, it is the purpose of the interventions proposed in this report to underwrite value growth at Grahame Park (and Colindale more generally), thereby further mitigating the risk of reductions in capital values.
- 4.5 There is a risk that the relocation of Barnet and Southgate College to the Phase 1b site cannot be facilitated within the European Procurement Regulations and/or a legally acceptable variation to the terms of Grahame Park Principal Development Agreement. The transfer is currently subject to rigorous legal scrutiny and Council officers will act in accordance with that advice.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 The Grahame Park regeneration scheme will replace 1,314 homes and deliver a mix of 2,977 affordable, intermediate and private sale flats and houses with new community facilities, including a library, health centre, children's centre and community centre. The Council will have 100% nomination rights to the new affordable housing units and re-housing offers will be made to all the existing secure tenants on the existing housing estate. The regeneration scheme will provide a new area of mixed tenure housing and will make this part of the Borough a better place to live, leading to improved community cohesion in an area with a highly diverse population.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

6.1 Finance

- 6.1.1 To ensure that Stage A can be delivered in full, the report requests investment of up to £5m into the scheme, funded from a combination of HRA headroom and General Fund capital resource.
- 6.1.2 The expenditure of £5m on improvement works to Colindale Avenue will unify the public realm, linking the development at Grahame Park with the old hospital site and with Beaufort Park. This is to be funded initially from the infrastructure reserve. There are

mechanisms in place to reimburse this reserve if funding is granted for the Growing Places Fund and S106 payments.

- 6.1.3 Any capital investment contributed to the Phase 1b of the Grahame Park Regeneration Scheme will be financed from a combination of HRA headroom and General Fund capital resource.

6.2 Procurement

- 6.2.1 It is intended that the proposals set out in this report will be taken forward by means of a variation to the existing Principal Development Agreement. The Deed of Variation will be subject to detailed legal advice in respect of any procurement issues.

6.3 Performance and Value for Money

- 6.3.1 The proposal to sell Plot A8 to Barnet and Southgate College will be disposed of at open market value, thus ensuring value for money. The proposal is that the sale would be carried out by CFGP, but the terms of the sale would be subject to and determined by the principles of the proposed Deed of Variation to the PDA for Grahame
- 6.3.2 All the new homes for private sale, including those that may be offered for sale under a Shared Equity product will be independently valued to ensure open market value is achieved.

6.4 Staffing, IT, Property and Sustainability

- 6.4.1 There are no issues to report around staffing, IT, property and sustainability.

7. LEGAL ISSUES

- 7.1 Section 1 of Chapter 1 of the Localism Act 2011 was brought into force by the Communities and Local Government Department by means of *Localism Act 2011 (Commencement No.3) Order 2012*. This legislation provides local authorities with a broad power to do anything that individuals may do subject to any specific restrictions on local authorities contained in legislation. The Council has the power under this section to do the things that it proposes to do under this report, as long as its actions do not contravene any specific restriction on other legislation.
- 7.2 The Council's promotion of the development and regeneration of Grahame Park includes the promotion and/or improvement of the social and environmental well-being of the Grahame Park area for the benefit of its residents.
- 7.3 The Council, in addition to the power referred to in 7.1 above, accordingly has power to enter into the proposed Deed of Variation to Grahame Park PDA for the purpose of facilitating the regeneration of the Grahame Park Estate and any other related agreement by virtue of its 'well-being power' as more particularly set out in Section 2 of the Local Government Act 2000, but in relying on this power, it has to have regard to its sustainable community strategy as required by section 2(3) of the Local Government Act 2000.
- 7.4 It is very important that the Council secures the appropriate legal provisions and safeguards with regard to the detailed terms of any agreement and any legal obligations including risk apportionment and statutory requirements in any Deed of Variation or related agreement which may result from the proposals in this report.

7.5 The Council should ensure that it takes appropriate legal advice on the EU procurement issues and all likely state aid issues during the course of its negotiations and should ensure that the final version of the resultant agreement comply with relevant legislation

7.6 The proposal in 9.1.26 would result in a “financial assistance and gratuitous benefit” to CFGP and prior to completing the Deed of Variation or using the receipts of the sale, for the scheme, the Council will have to obtain consent from the Secretary of State under Section 25 of the Local Government Act 1988.

8. CONSTITUTIONAL POWERS

8.1 Constitution – Part 3 Responsibility for Functions – Section 3.6 Functions delegated to the Cabinet Resources Committee – all matters relating Capital and revenue finance, forecasting, monitoring, borrowing and taxation.

9. BACKGROUND INFORMATION

Context

9.1.1 In January 2001 the Council embarked upon a scheme for the regeneration of the Grahame Park estate which aimed to transform it into a thriving, 3,440-home mixed-tenure community with improved transport links and enhanced community facilities. Grahame Park forms a key part of the Colindale regeneration area, supported by the Area Action Plan adopted in March 2010.

9.1.2 A small demonstration phase of 32 new homes was completed in October 2007 and the construction of a replacement children’s facility known as the Greentop Centre was completed in December 2008.

9.1.3 The first major phase, comprising 319 mixed tenure homes started on site in July 2009. All 319 new homes are on track for completion this summer. This phase also included significant improvements to the open space which were completed in April 2011 when the open space was opened to the public (renamed Heybourne Park).

9.1.4 Planning permission was granted in February 2012 for the next major Phase, known as Phase 1b, which is located at the southern end of the estate, bounded by Lanacre Avenue to the west and Grahame Park Way to the south. This phase comprises 446 new homes (including 373 for private sale), a new library, community centre, shops, housing office, a public square and part of a new park. Due to the size of this phase, it is split into three sub-phases (i, ii, iii) due to be delivered between August 2012 and 2017.

Grahame Park Business Plan and Viability

9.1.5 The Grahame Park Business Plan is structured in such a way that any surplus generated from one phase is rolled forward to underwrite viability in the next phase, with minimum viability hurdles required to be met in order for a phase or sub-phase to proceed. However, the surpluses expected to be generated from Phase 1a and Phase 1b are substantially less than what was forecasted when the Grahame Park Principal Development Agreement (PDA) was signed in 2007, due mainly to significantly reduced private sales income, as well as increasing costs.

Get Britain Building Equity Fund

9.1.6 In a bid to improve the financial viability of Phase 1b, Genesis was awarded £5.94m Recycled Capital Grant Funding from the Homes and Community Agency to expedite delivery of 54 rented homes in the first sub-phase of 1b. Furthermore, Genesis, with the

support of the Council, has been shortlisted for £5.08m equity based funding from the Get Britain Building (GBB) Fund, administered by the HCA. The terms of the funding are still being agreed with the HCA and are due to conclude shortly.

- 9.1.7 Notwithstanding this welcome additional funding, the Genesis Business Plan were showing Phase 1b(ii) and 1b(iii) as not viable, as defined in the PDA. Consequently, CfGP is not obliged under the terms of the PDA to commence Phase 1b(ii) and (iii).

Council Investment in Phase 1b

- 9.1.8 The Council commissioned KPMG to undertake due diligence work on the Genesis business Plan. The viability gap for Stage A as at March 2012 was £8.5m and in light of the Business Plan analysis, Grahame Park is at serious risk of stalling. As a result of GBB funding and reduced financing costs this figure now stands at £3.3m surplus. Hence, Council officers have been in discussion with Genesis to agree terms for bringing forward development. The table below shows that a cumulative surplus is made on the phases within 1b however only the first sub-phase passes the viability hurdle as set out in the PDA. As part of this agreement Genesis are agreeing to build out sub-phases 1bii and 1biii even though under the existing PDA they do not have to and these two sub-phases are loss making.

| Choices for Grahame Park Stage Viability Test (per PDA) - Stage A base model May 2012 | Sub-phase 1bi | Sub-phase 1bii | Sub-phase 1biii |
|--|--------------------------|---------------------------|----------------------------|
| Cumulative Stage A surplus £m | 7.6 | 4.9 | 3.3 |
| Viability Hurdle £m | (3.8) | (7.0) | (6.2) |
| Overall | 3.8 | (2.1) | (2.9) |

- 9.1.9 The proposals within this report recommend the council underwriting up to £5m of sales risk. This investment will be matched by Genesis
- 9.1.10 The proposal is for Genesis to proceed with developing all of Phase 1b (i, ii, iii), thereby waiving the viability tests on each of the three sub-phases, subject to (1) confirmation of Get Britain Building funding and (2) an equal investment by both parties to underwrite sales risk.
- 9.1.11 To date sales on Grahame Park have been disappointing. There are a number of reasons for this, including the size of the flats for sale, which Genesis is addressing in subsequent phases, and the location of the current phase and the appearance of the approach to the development, which the Council is proposing to address in terms of investment to Colindale Avenue (see para 9.1.20).
- 9.1.12 In the first instance, Genesis will proceed to develop out the site along the agreed proportions of 316 private for sale (this takes account of proposed Barnet and Southgate College site), 18 shared ownership and 55 affordable rent units.
- 9.1.13 In the event that required private sales rates are not achieved, the proposal is for the Council to fund the conversion of up to 25% of the new homes for sale to a Shared Equity (SE) product which will be aimed at first-time buyers. The cap on the Council's investment will be set at £5m.
- 9.1.14 The SE product would be offered through equity loan funding of 20% of the purchase price, with purchasers raising funding for 80%. Staircase arrangements would apply,

along the lines of the HCA's First Buy scheme where a requirement to begin to repay the 20% does not take effect for the first six years from date of purchase of the property. In effect, therefore, new homes are being offered at a 20% market discount, significantly increasing affordability to first-time buyers and, at the same time, marketability and, hence, reducing sales risk to Genesis. This is evidenced by the fact that SE units have been selling well at Grahame Park to date.

9.1.15 Under the principles of the SE product, the purchaser's mortgage would be secured as a first charge on the property in the usual way and ranks ahead of the equity loan charge. The Council would take a second charge over the property to secure its interest. The Council would then receive 20% of the market value of the property when sold.

9.1.16 The form of CFGP's match funding has yet to be finalised. Genesis will either mirror the Council's investment through providing up to a further 25% of private for sale units being converted to SE, or to convert private sale units to private rental.

Grahame Park Stage B

9.1.17 The Grahame Park Regeneration Scheme is broadly divided into two major Stages – A and B. This report deals, in the main, with presenting proposals that will ensure Stage A can be completed. Plans for Stage B are currently contained within the masterplan for Grahame Park which was agreed in 2007. Since that time, the market downturn and experience from Stage A has led the Council and its partners to concur that a review of the masterplan for Stage B, particularly with a view to revisions to improve viability and, therefore, deliverability of Stage B is warranted. Consequently, the Council has commissioned a review of the masterplan with the objective of producing a new delivery plan for Stage B. The outcomes of this review will be reported to Cabinet in the autumn.

Council Investment in Area Improvement

9.1.18 One of the major impediments to promoting Colindale is the impression created on arrival at Colindale Underground Station. Major public realm works are required to transform the 'look and feel' of Colindale Avenue, improving marketability in the area to prospective residents while fostering confidence in the continuing improvement of the area to existing and new residents.

9.1.19 Consequently, the Committee is asked to approve the Council investing £5m in public realm works along Colindale Avenue. The form of those works are being worked up, but will unify the public realm linking the development at Grahame Park with that at the old hospital site and with Beaufort Park through such interventions as 'de-cluttering', resurfacing of the footpath, proper way-marking, etc.

9.1.20 Much of these works would be forthcoming as new developments are built out through Section 106 contributions. The purpose of proposing the investment now is to bring forward development – thereby improving the appearance and therefore marketability of Grahame Park and Colindale in general to prospective buyers. Consequently, part of this investment will be recouped by the Council through a strengthening in the quantum (adding to the Council's Home Bonus) and value of sales (which, in the case of Grahame Park, are then recycled into further development of Grahame Park). Therefore, investment in Colindale Avenue is seen as a further way for the Council to underwrite the viability of Grahame Park while also showing its tangible support to the further regeneration of the area.

9.1.21 Furthermore, it is the intention that this seed funding will be recouped when the S106 contributions fall due in time, and can then be recycled later into further investment in the public realm within the area. In this way, we not only kick start public realm

enhancements, but increase the overall quantum to the benefit of the local community and to the advantage of the overall development at Colindale.

London Growth Fund Bid

9.1.22 The Council, with the support of partner public sector agencies, community organisations, private companies and town centre partnerships, has bid for a Revolving Infrastructure Fund to operate across the west of the borough. £9m of the London Growth Fund (LGF) has been bid for. The fund is administered by the Greater London Authority who anticipate making its first announcement of successful bids in the autumn 2012. Should the Council be successful, the funds would be applied to replenish reserves applied in funding the cost of the Colindale Avenue improvements and to bring forward further works to further propel the pace of regeneration in Colindale.

Barnet and Southgate College Proposal

9.1.23 It is the shared ambition of the Barnet and Southgate College and the London Borough of Barnet to facilitate a relocation of the College's Grahame Park campus within Grahame Park. The existing facility on Grahame Park Way is no longer fit for purpose.

9.1.24 The proposal is to relocate the College within the proposed Phase 1b, of the Grahame Park Regeneration scheme, the area known as Plot A8 (at the southern end of the site, adjoining the existing roundabout), which currently has planning permission for 57 homes for private sale, retail space, a new library, and the option for additional space for a Centre for Independent Living (CIL), which would replace the existing specialist service provided at Flightways Centre in the Concourse.

9.1.25 To facilitate the relocation, it is proposed that the Council seek consent from the Secretary of State to transfer Plot A8 to Choices for Grahame Park at nil value but explaining that the variation to the PDA enables CFGP to sell the land directly to Barnet and Southgate College at market value for the express purposes of designing and constructing a new college. The proceeds from the sale will be recycled into the Business Plan, in line with purposes of the current Principal Development Agreement.

9.1.26 This proposal ensures the retention of the College within Colindale, and particularly at the heart of the regeneration of Grahame Park, bringing additional vitality and economic activity to the area. In addition, it provides for a new college facility and releases the existing college site for residential development and, essentially, a new primary school. It is further proposed that the new college incorporates the new library and, potentially, the CIL and provision of a youth centre (currently provided on the existing College site), providing opportunities for synergies and efficiencies in provision of these services to the wider community.

9.1.27 Facilitating the relocation of the College on site 1b will necessitate a change in the Principal Development Agreement. Consultation on the proposal with local residents will commence prior to presentation to Cabinet Resources Committee.

9.1.28 All three parties to the relocation – the College, the Council and Genesis – are working actively towards achieving the relocation. It is anticipated that a Heads of Terms will be in place between the parties to effect the relocation by the end of June.

9.1.29 Locating the new college facility on Plot A8 is dependent upon the sale of the existing college site at Grahame Park Way for funding. the redevelopment of the Grahame Park Way site is therefore to be considered as enabling development. The Council has land interests on the Grahame Park Way site which it seeks to exchange for a parcel of land within the Grahame Park Way site on which the Council would build a primary school in

the future as per the Colindale Area Action Plan strategy. The commercial details of the proposal are tabled in the Exempt Report.

10. LIST OF BACKGROUND PAPERS

10.1 None

Legal – TE
CFO – JH