

MUNICIPAL YEAR 2018/2019 REPORT NO. 153

MEETING TITLE AND DATE:

Council 30 January 2019

REPORT OF:

Executive Director Place

Contact officer and telephone number:

Jennifer Price 020 8379 2443

E mail: jennifer.price@enfield.gov.uk

Peter George 020 8379 3318

E mail: peter.george@enfield.gov.uk

Agenda – Part: 1

Item: 8

Subject: Meridian Water Financial Review

Wards: Upper Edmonton

Key Decision No: 4469

Cabinet Member consulted:

1. EXECUTIVE SUMMARY

1.1 This report sets out the new short term capital budget as required to continue to progress the project priorities as detailed in:

- KD4033 (MERIDIAN WATER PROGRAMME UPDATE),
- KD4717 (MERIDIAN WATER EMPLOYMENT APPROACH); and
- KD4711 (MERIDIAN WATER - HOUSING INFRASTRUCTURE FUND)

approved by Cabinet on 25th July 2018. It is expected that this short term budget will be sufficient to continue the work of progressing the Meridian Water scheme until July 2019.

1.2 The report also sets out an indicative budget from July 2019 – April 2021 for information only.

1.3 This short-term budget is required to continue the work of Meridian Water up to July 2019. The costs are in line with expectations and fall within the overall budget estimates to complete the scheme. The majority of the original four-year capital programme (2016/17-2019/20) for Meridian Water was utilised in the acquisition of the Stonehill Land as detailed below and therefore this new budget requirement is needed.

1.4 A 5 year delivery strategy for Meridian Water will be put forward to Cabinet in July 2019. Alongside this will be a new capital budget request for the following 2 years which will reflect the requirements of the strategy proposed.

1.5 Decisions to spend the allocated budget will be subject to existing rules and procedures as set out in the constitution

2. RECOMMENDATIONS

It is recommended that Council:

- 2.1 Approves the new short term capital budget (as set out in section 3.2 of the Part 2 report), noting that decisions to spend the allocated budget will be subject to existing rules and procedures as set out in the constitution
- 2.2 Notes the indicative capital budget from July 2019 to April 2021
- 2.3 Notes the forward programme of work for the project

3. CAPITAL BUDGET

3.1 INTRODUCTION

The purpose of this report is to request approval to the proposed capital budget up to July 2019 which will allow the Council to continue to develop the priorities and strategy for Meridian Water.

- 3.1.1 On the 10th February 2016 Cabinet (**KD4229**) agreed the increase to the Neighbourhood Regeneration Capital Programme to fund the next stages of a number of regeneration initiatives which included Meridian Water.

The four-year capital programme (2016/17-2019/20) for Meridian Water covered all budget projections for the project up to March 2020 including staffing costs, consultancy fees, capital works and land acquisition costs.

On 9th May 2017, Cabinet (**KD4442**) recommended to Full Council that the capital programme be re-profiled to meet the immediate funding requirement to purchase the Stonehill Estate in the east of Meridian Water where a unique opportunity had arisen for early acquisition. Full Council subsequently approved the re-profiling of the capital programme for the financial year 2017/18 to meet the acquisition cost commitment.

The completion of the acquisition of Stonehill in June 2017 thereby fully committed the Meridian Water capital budget and has necessitated a review of the future spend and the creation of a new capital budget.

This report seeks to set out a short term budget required to continue the work to deliver the project until July 2019. It is anticipated that the full delivery and investment strategy for the rest of the scheme will be brought to Cabinet at

this time and as such a new budget for the 2 years after July 2019 will have been established.

The costs contained within this short term capital budget as proposed in this report are included within the financial model along with the anticipated costs for delivery of the rest of the Meridian Water scheme.

3.1.2 Progress on Meridian Water to date has been substantial and momentum is gaining. So far, the Council has achieved :

- 67% of net developable land acquired
- New station and construction of 3rd track on site, on programme and on budget
- HIF bid submitted and strongly supported, applying for £156M of grant funding for strategic road and rail network
- Phase 1 planning consent in place and procurement of developer to deliver the 725 homes is well underway
- Remediation works on Willoughby Lane and Teardrop substantially complete
- Meridian Works projects gaining momentum (potentially including the Field Day festival subject to further approvals)
- Masterplan v0 in place, further detailed design underway to create masterplan v1a to be included as part of SPG
- Outline planning consent for Phase 2, including circa 2,000 homes, well underway, due to be submitted in April 2019
- Place Book completed, encapsulating the place-making vision for the entire scheme
- New Meridian Angel school and Ladysmith park opened
- Quality internal team assembled and strong professional team appointed
- Considerable community engagement
- Brand well established and widely communicated

3.1.3 The Council's priorities as set out in the July 2018 cabinet reports are:

Delivery

- To deliver 3 early sites being Phase 1 at Willoughby Lane, an affordable residential and workspace scheme at Leaside Road and an employment scheme on the east bank
- To finalise a strategy for the delivery of the remainder of the Meridian Water site
- To capture the Council's key place-making strategies in a scheme-wide Place Book supported by phase Place Briefs

HIF

- To submit a robust bid to the Housing Infrastructure Bid for delivery of the strategic road and rail network across Meridian Water, and to deliver these works if the bid is successful
- To continue work on the planning, design and procurement of the HIF works in anticipation of a successful bid and to ensure timeframes can be met

Employment

- To complete the detailed Meridian Water Employment Strategy

- To proceed with meanwhile projects for Creative Entrepreneurs, as well as those at the Sheds and on the Teardrop site
- To market leases for Stonehill and IKEA Clear to achieve the Council's short-term employment strategy priorities and revenue target
- To purchase and refurbish 4 Anthony Way

3.1.4 This report is the first in a series of four intended to be presented in 2019. The future reports are as follows :

- July 2019 – Strategy Report to Cabinet presenting the business case for delivery of the remaining phases of Meridian Water and recommendation for a specified delivery strategy
- July 2019 – Report to Council requesting new 2-year budget based on the strategy approved by Cabinet above
- Autumn 2019 – Masterplan Report to Cabinet presenting the final masterplan and associated financial model for Meridian Water for approval

In order to progress with the priorities as detailed in section 3.1.3 above, a new short-term budget is required to enable work to continue until the full Strategy Report and 2 year budget is presented to Cabinet.

3.2 SUMMARY OF BUDGET

The budget to July 2019 enables :

- implementation of major infrastructure works (if HIF funding achieved, see Part 2 report for further detail)
- land acquisition to support the delivery of these works
- masterplan design to support planning and development of later phases
- purchase of overage rights to enable greater flexibility in the delivery of Phase 1
- completion of remedial and ground works to prepare for delivery of Phase 1 and employment land
- delivery of a programme of meanwhile projects and income streams
- Buy-out of the NG overage (please see KD4820 for further details)

The budget is split into Workstreams as follows:

Workstream
Building and Enabling Works (including Station delivery but excluding HIF)
Planning and Design (excluding HIF)

HIF – Design and Delivery
Land Acquisition
Land and Property Management
Commercial and Development
Meanwhile and Social Economic
Internal Council costs, contingency and interest

The details of the interim capital budget up to July 2019 are contained within section 3.2 of the Part 2 report.

The short term budget has been prepared on the basis of a comprehensive calculation of all future anticipated spend and commitments until July 2019. However, a higher level assessment of costs beyond that date has also been carried out to ensure that the budget being requested here remains in line with future expectations.

3.3 **SCHEME FINANCIAL MODELLING**

3.3.1 In order to set this capital budget proposal in context of the wider scheme, this report provides a summary of current scheme financial health.

A new full and detailed financial model has been created which reflects the entire scheme cost and revenue streams for the Council broken down into phases as per the current Phasing Plan. A new financial model was required following the decision taken by Cabinet in July to place the Council as the master developer for Meridian Water. This financial model has been peer-reviewed by the Council's professional advisors Ethixl and PWC and has also been reviewed by the Council's Finance team.

3.3.2 This model has been designed to allow flexibility of inputs and assumptions for sensitivity testing purposes as well as allowing different delivery scenarios to be assessed in the future – i.e. those scenarios which will form part of the delivery strategy which will be brought to Cabinet later in the year.

3.3.3 The model currently assumes the Council's baseline which is that it acts as master developer, delivering the strategic infrastructure and gaining outline planning consent for each phase prior to taking the phases individually out to the market to secure a developer to deliver.

3.3.4 The land receipts for each phase are calculated as full residual values based on the development value and cost assumptions as advised by the Council's professional team. This means that the land value for each phase is calculated as the difference between total phase values and total phase costs

(including developer profit at an agreed percentage of cost). This is industry standard and should reflect a fair value for the land at each stage.

3.3.5 The model also makes three other key assumptions:

- 1) That the HIF funding is secured
- 2) IKEA and Tesco are considering co-locating their stores to the north of the scheme adjacent to the A406 thus releasing the rest of their land for residential development, which they would deliver themselves. The model assumes that this co-location does not take place but rather that the stores remain in their current position and the Council purchases the excess land from IKEA and Tesco and delivers the relevant phases itself. This assumption is in line with the original masterplan which underpins the emerging ELAAP
- 3) That the Council obtains approval for the Employment Hub land and the land at Kenninghall to remain as SIL with all other SIL designations released. Scenario testing is underway to show alternative uses for the eastern bank in the event that not all SIL is released via the draft Local Plan
- 4) See part 2 for the full list of assumptions

3.3.6 The model is based on the current draft masterplan version 1a. The contents of this masterplan require further discussion and testing alongside strategy work to develop the final scheme. The details of this scheme, and the updated financial model, will be brought to Cabinet in the Autumn for approval. However, the model provides a health check that the scheme-in-progress could deliver a net positive financial return to the council over 25 years and provides a baseline from which to assess changes to the masterplan as they develop. Officers and the Council's professional advisors are carrying out further extensive work and testing on the masterplan, delivery strategy and detailed assumptions in order to inform the financial papers which will be brought to Cabinet later in the year as detailed above.

3.3.7 Further assumptions are detailed in section 3.3 of the Part 2 report.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1 The alternative option is to not approve the short term capital budget and leave any decision on future budgets until the full delivery strategy is presented to Cabinet. The implications of this would be for the Meridian Water scheme to be delayed due to there being no resources to progress with the critical work streams required to deliver the Council's priorities as detailed below.

4.2 The Council's priorities as set out in the July 2018 cabinet reports are as set out in section 3.1.3 of this report.

Due to momentum being lost and some opportunities no longer being available, the delay to the scheme would be longer than the 6 months delay in approving the budget as it would take time to re-engage the professional team, re-start negotiations and re-build momentum. In addition, some current opportunities could be lost altogether, abortive costs could be incurred and market perceptions could be negatively impacted.

In particular, the ability to deliver the HIF works (assuming funding is confirmed) by the deadline is dependent on ensuring that a budget is available to continue with the upfront planning and design work. If the HIF works cannot be delivered on time then there is a risk that the bid will not be successful and/or that funds will no longer be available to complete the project after the deadline.

Also, the delivery of the first homes through Meridian One and the establishing of a delivery framework for the rest of the scheme, are all dependent on continuation of budget availability.

5 REASONS FOR RECOMMENDATIONS

- 5.1 This budget is required in order to progress the critical work streams involved in the delivery of Meridian Water as agreed at Cabinet in July 2018. This is a strategically important scheme for the Council in which it has invested substantial time and resources to date.
- 5.2 By approving this budget, the required resources up to July 2019 will be made available to continue the work to unlock the scheme and deliver the anticipated benefits, however expenditure of all funds remains subject to the Council's procurement procedures and approvals.

6 COMMENTS FROM OTHER DEPARTMENTS

6.1 Financial Implications

See Part 2

6.2 Legal Implications

Legal Implications

Dated 21st January 2019

MD

- 6.2.1 The Council has power under section 1 of the Localism Act 2011 to do anything that individuals generally may do provided it is not prohibited by legislation and subject to public law principles. The recommendations detailed in this report are in accordance with the Council's powers.

6.2.2 The Council has a statutory duty under section 151 Local Government Act 1972 to make arrangements for the proper administration of its financial affairs. The Council's budget setting process is set out in the Part 4 of the Council's Constitution (Chapter 4.7).

6.2.3 The Council has a fiduciary duty to look after the funds entrusted to it and to ensure that its Council tax and ratepayers' money is spent appropriately. In embarking on any project the Council must consider whether the project will be a prudent use of the Council's resources both in the short and long term and must seek to strike a fair balance between the interests tax/ratepayers on the one hand, and the wider community's interest on the other hand.

6.3 **Property Implications** **See Part 2**

7 **KEY RISKS**

Risk: If the capital plan is not approved, there will not be sufficient budget available to adequately resource future workstreams required to bring the Meridian Water scheme forwards and unlock its potential

Effect: It is important to have adequate resource available at this stage otherwise there is a risk that delays will be incurred adding risk to the Council's financial position and reputation

Mitigation: Approve the Capital Budget plan but ensure ongoing cost scrutiny at all times on Council expenditure.

Risk: Costs rise beyond those reflected in the financial model

Effect: The Council may not achieve the level of returns shown by the financial model

Mitigation: A contingency of 10% on build costs has been included within the financial model. In addition, a further contingency of 5% has been included on the Council's costs with the budget figures shown in the Part 2 report. The Council and the Council's professional team to ensure that the delivery of the scheme is optimised at every stage taking into account the market and all relevant options

Risk : Revenues are not achieved at the levels estimated in the financial model

Effect : The Council may not achieve the level of returns shown by the financial model

Mitigation : All figures within the financial model have been estimated on a prudent basis. The Council has the ability to control when and how phases are taken to market and can therefore manage the risks that a poor market will impact receipts through delaying a phase, changing the tenure of residential units offered in a phase or bringing phases forward in a different order, ie

delivering employment phases instead of residential phases. Any delay in bringing phases forward can be mitigated through meanwhile uses.

8 IMPACT ON COUNCIL PRIORITIES – CREATING A LIFETIME OF OPPORTUNITIES IN ENFIELD

8.1 Good homes in well-connected neighbourhoods

The Meridian Water scheme aims to provide a well-connected neighbourhood through improvements in both road and rail networks increasing the frequency of services as well as reducing travel times. The scheme will be built in accordance with a very robust design code ensuring high quality of design and build with a range of tenures.

8.2 Sustain strong and healthy communities

The Meridian Water regeneration scheme aims to provide robust social infrastructure providing opportunities for the local community to partake in healthy lifestyle choices with access to leisure centres, a cycle network and access to high quality public open spaces. Good quality housing is a basic human need for health. In addition the built environment is strongly influential of health behaviour. The Meridian Water development will enable LB Enfield to provide both high quality housing and an environment that will enable healthy lifestyles.

8.3 Build our local economy to create a thriving place

The Meridian Water regeneration scheme aims to bring economic growth, support inward investment, create new jobs and build a strong and sustainable future for the local community.

9 EQUALITIES IMPACT IMPLICATIONS

Equality and diversity considerations will continue to be integrated into the development and delivery work for Meridian Water to make sure they are embedded in the decision-making process and to avoid costly design changes.

Corporate advice has been sought in regard to equalities and whilst there are no Equalities implications in agreeing the recommendations outlined in this Financial Review, it is recommended that as part of the review of the Meridian Water Project, the Meridian Water EQIA be reviewed and updated to embed Equalities and Diversity in the future procurement, design and delivery of the project. In addition to this it should be noted that projects or work streams deriving from this may be subject to a separate Equalities Impact Assessment and they will therefore be assessed independently on the need to undertake an EQIA to ensure that the council meets the Public Sector Duty of the Equality Act 2010.

It is also recommended that any contracts awarded should include a duty on the successful applicant to assist us with meeting our obligations under the Equalities Act 2010.

10 PERFORMANCE AND DATA IMPLICATIONS

The Meridian Water budget is monitored on a monthly basis, with quarterly positions reported as part of the Council overall capital monitor.

This involves Meridian Water budget managers reviewing expenditures against budget, identifying variances and providing explanations.