

## **SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Cabinet **DATE:** 22<sup>nd</sup> January 2018

**CONTACT OFFICERS:** Neil Wilcox, Director of Finance & Resources  
Stephen Gibson, Project Manager, Regeneration

**(For all enquiries)** 01753 875852

**WARD(S):** Central

**PORTFOLIO:** Leader of Council and Cabinet Member for Regeneration and Strategy - Cllr Swindlehurst

### **PART I** **KEY DECISION**

#### **HEART OF SLOUGH – NORTH WEST QUADRANT UPDATE**

##### **1 Purpose of Report**

- 1.1 On 8 April 2017, Cabinet noted that Slough Borough Council ("SBC" or "the Council") completed the acquisition of the freehold interest in land owned by the University of West London to assemble the site referred to as the North West Quadrant ("NWQ"). In doing so, it was noted that the proposed mixed-use scheme would be the catalyst for one of the most substantial regeneration projects in the UK. Whilst the site was assembled, it was agreed to defer a decision on site delivery.
- 1.2 At the same meeting, the Interim Chief Executive, acting in consultation with the Commissioner for Housing and Urban Renewal, was delegated authority to negotiate an option for the disposal and subsequent development of the site via a special purpose vehicle subsidiary of Slough Urban Renewal LLP ("SUR"). This was on the understanding that SUR would provide revised proposals which satisfied the Council's requirements in relation to quality/design, mix, programme/deliverability, economic development outputs and outcomes, profit distribution and risk profile.
- 1.3 Since acquiring the site the Council, supported by external advisors, has been engaged in ongoing negotiations with SUR. These negotiations have centred upon feedback on the draft Vision Statement presented by SUR in June 2017. The purpose of this report is to:
  - 1.3.1 provide an update to Cabinet on the SUR Vision Statement;
  - 1.3.2 provide an update to Cabinet on negotiations with SUR and demonstrate how SUR has responded to the initial feedback; and
  - 1.3.3 make recommendations on the future delivery of this key site.

##### **2 Recommendation(s)/Proposed Action**

The Cabinet is requested to resolve:

- (a) That the granting be agreed of an option to SUR to redevelop the site referred to as the North West Quadrant and to agree that Council officers should proceed on

the basis that the site will be disposed of to, and developed by, SUR, subject to Cabinet approval of the final sum for each phase, which for the Council, will represent no less than the best consideration reasonably obtained (i.e. best value); and

- (b) That Subject to (a) above, delegated authority be given to the Director of Finance & Resources (Section 151 Officer), following consultation with the Leader of the Council, to agree:
  - i) The final terms of the option in line with the agreed Heads of Terms; and
  - ii) Expenditure of up to £150,000 of reasonable development costs at NWQ, including the replacement of hoarding, the cost of which is to be recoverable from the regeneration project through the minimum land value payable by SUR.
- (c) That the content of Appendix One, which illustrates the vision, track record and expertise of SUR to deliver the NWQ site on behalf of the Council be noted.
- (d) That the content of Appendix Two be noted, which confirms the Council's ability to use SUR to procure the development, and sets out how the standard option agreement has been amended to consider: additional governance, the phased and extended nature of the scheme, economic development, and the additional development management expertise required.
- (e) That the content of Appendix Three, prepared by an independent firm of Chartered Surveyors specialising in development consultancy, which supports the conditional disposal to SUR as a reasonable and effective route offering best value to the Council be noted.
- (f) That it be agreed that the redevelopment of the NWQ should, where possible, facilitate and maximise development opportunities emerging in the town centre where these opportunities deliver wider social and regenerative benefits for Slough.
- (g) That it be noted that further reports will be made to Cabinet on (i) the Masterplan for the development of the NWQ site to update SUR's current indicative Masterplan document; and (ii) the planning application for outline planning consent for the whole of the NWQ site and full planning consent for Phase 1; to seek Cabinet's approval to both before SUR submit the planning application.

3. **The Slough Joint Wellbeing Strategy, the Joint Strategic Needs Assessment, and the 5-Year Plan**

The promotion and delivery of high quality new housing, offices, leisure and retail will maximise the value of the Council's asset base, increasing council tax and business rate receipts and providing an income stream which could contribute to the provision of front line services.

3a. **Slough Joint Wellbeing Strategy Priorities**

Construction of the scheme will improve local temporary employment opportunities, as well as increasing opportunities for apprenticeships, enabling local people to improve their learning and skills base. The development of offices, retail and leisure facilities will create long-term employment opportunities. Redeveloping the sites will

improve the quality of the built environment and the image of the town whilst providing much-needed high quality housing.

The scheme will be designed with on-site management as a key consideration and the site will be constructed in line with current Health and Safety regulations.

3b. **Five-Year Plan Outcomes**

Working effectively and expediently to procure a development partner, progress planning and deliver this important regeneration scheme will address the Five-Year Plan outcomes through the following:

- **Outcome 1** – Ensuring that the scheme is designed in line with amenity requirements, creates safe, useable and interesting public spaces, and will contribute towards our children and young people having the best start in life.
- **Outcome 2** – High quality new homes and public spaces will attract residents who are likely to take responsibility for their own health, care and support needs.
- **Outcome 3** – A mixed-use scheme that makes a statement of quality next to the new Crossrail station will encourage people to visit, live or work in Slough.
- **Outcome 4** – The delivery of a mixed-tenure residential-led scheme will directly contribute towards our residents having access to good quality homes.
- **Outcome 5** - developing Grade A office space, desirable homes, and retail and leisure uses on the site will help attract and retain businesses whilst directly creating job opportunities for our residents.

4 **Other Implications**

a) Financial

SUR is a Limited Liability Partnership owned by SBC and Morgan Sindall Investments Limited (“MSIL”). Generating a commercial return for the partners is part of SUR's objectives.

It is anticipated that the Council will receive a minimum land value which covers all acquisition costs (land payments, stamp duty land tax, acquisition legals etc., demolition costs and net finance holding costs (minimum land value is indexed by 3% per annum from exchange, less any meanwhile income, until drawn down) in addition to a share in the development profits. The delivery cost of the homes is covered by development sale receipts.

b) Risk Management

Subject to developing the site via SUR:

<b>Risk</b>	<b>Mitigating action</b>	<b>Opportunities</b>
<b>Legal –</b>		
The SUR SPV is sued by creditors of the joint venture.	There are clear firewalls between the Council, SUR and its subsidiaries.	SUR is already compliant with EU and UK regulations.
Action is brought against the SUR SPV in regards to state aid.	SBC has sought professional advice in regards to what lending	

SBC is unable to attain vacant possession of the TVU site.	rate needs to be paid by the SUR SPV on the loan to secure the land (as opposed to development finance).  SBC shall ensure as far as possible that all existing tenants are in occupation under leases contracted-out of the Landlord and Tenant Act 1954, with a term/break rights to reflect the proposed timetable.	
<b>Property</b> – House prices could fall, resulting in anticipated sales values being unachievable.	Morgan Sindall Group plc are a commercial partner and will ensure all development realised is financially viable and synced to market cycles.	The Council will participate in any growth in value achieved during the construction period, and almost a third of the residential properties are affordable housing which could be funded by the Council's Housing Revenue Account.
<b>Human Rights</b>	No risks identified.	
<b>Health and Safety</b> – workers are harmed or killed during the course of construction, or local residents are harmed accessing the site.	Morgan Sindall Group plc is a national regeneration and construction company with established Health and Safety procedures.	
<b>Risk</b>	<b>Mitigating action</b>	<b>Opportunities</b>
<b>Employment Issues</b> – The size, scale and complexity of this project will greatly increase the workload of existing staff, placing pressure both on this project and "business as usual".	The report highlights the additional staff resources that will be required and recommends that additional internal staff resources are established to specifically deliver this project.	SUR is implementing a local economic benefit programme (SME's, training, apprenticeships etc.) so that the more activity SUR does, the greater the potential benefit in relation to skills training and job creation.
<b>Equalities Issues</b>	No risks identified.	
<b>Community Support</b>	No risks identified.	
<b>Communications</b>	No risks identified.	The development of this long-awaited placemaking development is a positive story that makes the best use of Council assets. The potential exists to promote SUR to highlight how the Joint Venture is helping the Council deliver a range of sites throughout Slough.
<b>Community Safety</b> – local residents/workers harmed during construction.	Morgan Sindall Group plc is part of the Considerate Constructors Scheme (CCS).	

<b>Finance</b> – Exposure to increased risk due to speculative development activities on the private units.	Morgan Sindall Group plc is a top-5 construction and regeneration company quoted on the main London Stock Exchange, with an annual turnover of circa £2.2bn.	SBC loan notes issued to SUR during the construction period will be at circa 7% once the land is drawn down for construction. These returns are separate and in addition to SBC's share in development profits and any interest accrued during the holding period.
<b>Finance</b> – The development does not generate a profit or makes a loss.	The Council has taken independent advice on costs and revenue to ensure that the project is viable and will deliver a profit.	Should the sales period be shorter than anticipated, costs will reduce, resulting in an increase in the Council's share of the profit.
<b>Finance</b> – Higher than anticipated construction costs.	The option to SUR will include a minimum land value and SUR (MSIL/SBC) would lose profit if costs are not well-managed.	
<b>Timetable for Delivery</b> – schemes are delayed unnecessarily.	Development risk is managed by SUR through the Development Management team, Construction delay is mitigated through main contracts and supply chain.  The Option Agreement contains key milestones for delivery.	All parties are financially incentivised to deliver regeneration and redevelopment to the agreed programme. Using the existing legally-established subsidiary company will ensure expedience in delivery.
<b>Risk</b>	<b>Mitigating action</b>	<b>Opportunities</b>
<b>Governance</b> – Poor performance.	SUR has an established board of directors that are already competently directing the company's business.  An NWQ project steering group will be established. This group, which will include up to 3 SBC representatives, will meet on a monthly basis to make sure SBC exerts more influence over the project lifecycle.	Board members are from both the private and public sector, ensuring a balance between commerciality and long-term objectives.
<b>Performance</b> – failure to develop land transferred to subsidiary.	SUR is already developing sites successfully and will be incentivised to perform since the vehicle will be paying SBC interest on the land.  The Option Agreement contains key milestones and "key person" mechanisms to deal with performance and the provision of development	Increasing the number of projects and the resource within SUR will improve its long-term viability and success of delivering the Council's regeneration goals.

	managers with relevant expertise.	
<b>SBC Capacity</b> – SBC Officers unable to operate within commercial timescales.	The recent introduction of the Regeneration Directorate will bring together suitably-experienced staff to manage this project without adversely affecting other projects or business as usual.	
<b>Planning &amp; Transport</b> – the acquisition scheme does not achieve planning consent.  The current scheme does not adequately secure options for access and egress from the site to avoid impacts on the Heart of Slough junction.	The Council and SUR will use reasonable endeavours to achieve the objective for development of each Phase to adhere to planning policy from time to time, so far as such planning policy applies to delivery of Affordable Housing on the NWQ Site.  Transport and Highway service to assist SUR in considering options.	An enhanced scheme with increased density/height could create more homes.  Traffic modelling and traffic flow is critical to the success of the town centre.
<b>Oversupply of new housing in Town Centre</b> – the proposed redevelopment of the Observatory and Queensmere shopping Centres and Aberdeen Hexagon would come in conjunction with the NWQ and could lead to an oversupply.	Current and future levels of anticipated housing need, and high proportions of Private Rented Sector (PRS) units, make this unlikely. SUR will phase the provision of all housing types and ensure that the private units are released for sale in accordance with market requirements.	This may result in a substantial redevelopment programme that will introduce a higher quality central retail and restaurant offering, which should be positive for the town centre, Slough Borough, and the viability of the NWQ scheme.

### c) Human Rights Act and Other Legal Implications

SUR is a Limited Liability Partnership owned by SBC and Morgan Sindall Investments Limited (“MSIL”). Part of SUR’s objectives is to generate a commercial return for the partners.

On private general fund sites the land value represents the Council’s equity investment into SUR. This equity investment is documented in what is termed a loan note. The loan note, put simply, is a document which records the fact that the Council has loaned money to SUR which is intended to be repaid on the completion and subsequent sale of the development (or of individual phases) . Because the land value represents the Council’s “equity investment” in SUR, the risk of the development and land value remain with the Council. As a result the precise level of capital that will be returned to the Council at the end of the development will depend on whether there are sufficient funds available from the eventual sale of the completed development.

With a project as large and complex as the NWQ, there is a possibility that some phases or elements of the development will be forward-funded by third parties, in

which case those parties might pay land value to the Council at an earlier stage than sale of the completed development, mitigating the above Council development and sale risk, although this depends on the nature and terms of such forward-funded deals which may be achievable with such third parties. A confidential legal report is attached as Appendix Two.

d) Equalities Impact Assessment

There are no equalities issues associated with this report.

e) Property Issues

See section 5 below.

5. **Supporting Information**

**Background**

- 5.1 The Former Thames Valley University (“TVU”) Campus and the car park owned by the Council on the axis of Wellington Street/Stoke Road are known collectively as the North West Quadrant (“NWQ”) within the Heart of Slough Strategy.
- 5.2 Situated adjacent to the town centre and the Old Library Site and within easy walking distance to both the train station and bus station, the NWQ is the most significant development site within the scope of the Heart of Slough (“HoS”) Strategy. Following the acquisition of the Queensmere and Observatory shopping centres in 2016, the potential exists to take a much broader strategic perspective. In addition to developing the site in the context of the HoS Strategy, it is now possible to ensure that the proposed development complements and facilitates the emerging town centre regeneration proposals. The combination of both initiatives will enhance the reputation of Slough as a place for people to live, work, shop and do business.
- 5.3 The acquisition business case was based on a Red Book Valuation of the site undertaken by an independent firm of Chartered Surveyors, having consideration to the previously consented scheme. The acquisition was also supported by a feasibility study and development appraisal prepared by SUR. These documents gave assurance to Cabinet that acquiring the former TVU site was in the best interests of the Council from a financial and regenerative perspective.
- 5.4 The Council entered into a formal Local Asset-Backed Vehicle (“LABV”) agreement with Morgan Sindall Investments Limited (“MSIL”) in March 2013, which has a set of controls commensurate with the OJEU-tendered position. These arrangements have worked well, with the Joint Venture with MSIL that created SUR having gone on to deliver success for both parties. However, in approving the report in April 2017, it was appreciated that the NWQ is also a one-off project with a unique risk/reward balance. Against this background, Cabinet wished to explore options to restructure the Partnership Agreement and/or the option to be granted under it, in order to reduce risk and ensure greater control throughout the development cycle. It was therefore agreed that a follow-up report would be considered that provided feedback on negotiations with SUR.

Originally scheduled for July 2017, this timescale was necessarily extended to ensure that the Council maximises the short, medium and long-term benefits arising from this development.

5.5 Cabinet has previously delegated authority to the Interim Chief Executive to negotiate an option with SUR. Following consultation with Cabinet members in June 2017, the negotiations have centred on the following key considerations:

- A desire to introduce a high quality mixed-use scheme that complements existing and associated town centre projects, and sets the standard for planned developments;
- A requirement that SUR should use reasonable endeavours in relation to delivering a scheme that meets SBC's Affordable Housing priorities;
- A requirement to maximise the SORI associated with this site;
- An obligation for SUR to draw down phases of a material size and within an agreed period from completion of the prior phase;
- Ensuring sufficient resourcing of SUR to the calibre and experience to deliver a scheme of this scale; and
- Ensuring that minimum Phase land values are fair and reasonable i.e. land receipts are not onerously deferred to the final phases.

5.6 The updated design and layout are set out in Section 3 of Appendix One. Whilst it should be stressed that this remains an interim proposal and will be updated to reflect additional feedback from the Council to ensure that the redevelopment of the NWQ maximises the proposals and opportunities emerging via the wider town centre regeneration strategy, it demonstrates that SUR has responded to comments provided to-date. It also demonstrates that SUR is aligned to the Council's regeneration and economic development objectives. Appendix Two details the timescales and governance arrangements for the Council to approve the updated masterplan.

5.7 The proposal to recommend that an option is granted in favour of SUR is supported by positive feedback from an independent firm of Chartered Surveyors specialising in development consultancy. This report has concluded that on balance, granting the option to SUR is justified. In addition to offering significant long-term value to SBC, it is supported on the basis that:

- SBC have significant controls – which will be used;
- SBC can secure profit shares;
- SBC have an existing working relationship with SUR;
- SUR have completed significant due diligence; and
- SUR acknowledge the need for additional expert regeneration skills.

5.8 However the feedback from the independent adviser stressed that this was subject to:

- SBC being prepared to actively manage/supplement the day-to-day decision-making and delivery with SUR;
- SUR formally complementing their expertise through the sub-contracting of services to Muse (the large scale regeneration developer subsidiary of Morgan Sindall Plc);
- SBC acknowledging that:
  - it is entering into an agreement which will require an acceptance of both site value and profit being generated over a long-term period; and
  - for SBC to maintain the 50:50 control mechanism, it will require to invest capital in addition to the value of its land;



- An understanding that the qualitative outputs of the project will cause a tension between the financially-related outputs (land value, profit, scale of affordable housing) and programme-related issues (time will be required to deliver this quality). Consequently, the Council will need to be prepared to understand these competing objectives, and evolve the scheme accordingly.

5.9 A copy of the report is included as Confidential Appendix Three.

## 6 **Comments of other Committees**

None.

## 7. **Conclusions**

- 7.1 The redevelopment of the NWQ is anticipated to be one of the most important regeneration schemes in the town and region. The redevelopment of this landmark site will provide an opportunity to transform the perception of the town. It will create jobs, introduce a long-term income stream to support the Council's long-term financial strategy and reaffirm the view that Slough is a place where people want to live, work and do business.
- 7.2 SUR has provided expert assistance to develop the acquisition business case, and is committed to working with SBC to realise the Council's objective of creating a mixed-use scheme which represents a statement of quality and confidence in the town centre.
- 7.3 Having successfully negotiated amendments to the standard form of Option Agreement, the Council now looks forward to working closely with SUR to commence the redevelopment of this site in the knowledge that it has gained more control over design, quality, timings of payments, and capital return.
- 7.4 The decision to grant an option signifies the type of long-term, strategic and commercial relationship with SUR that was envisaged in the original tender process. Due to changes in the ownership of the Queensmere and Observatory shopping centres, the opportunity exists to take a much broader strategic perspective which takes cognisance of the emerging town centre proposals to establish Slough as a destination of choice for the residential, retail and commercial sector
- 7.5 Given:
- 7.5.1 SBC's participation in the ownership and governance of SUR;
  - 7.5.2 SUR's responsiveness to meet the Council's key requirements for this site;
  - 7.5.3 the reassurance given via the input of the wider Morgan Sindall Group;
  - 7.5.4 the development expertise of Muse; and
  - 7.5.5 SUR's ability to quickly commence promotion of the site;

this report supports the recommendation to grant an option to SUR in line with the recommendations set out in Confidential Appendix Three.

## 8 **Appendices**

Note: The following Appendices all contain exempt information and are included in Part II of the agenda.

- 8.1 Appendix 1 - SUR Vision Statement;
- 8.2 Appendix 2 - SBC Legal Report;
- 8.3 Appendix 3 - Report from External Development Consultant.

**9 Background Papers**

None