

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 14 September 2015

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PART I **KEY DECISION**

SMALL SITES DEVELOPMENT STRATEGY

1 Purpose of Report

Cabinet considered a report in January 2015 that discussed options for developing smaller sites and highlighted the advantages, disadvantages and risks associated with establishing a wholly owned subsidiary housing company ("SHC"). When approving this report it was noted that Slough Regeneration Partnership ("SRP") had reviewed its business model and had confirmed that it would develop sites with a capacity of less than 20 units, however it required time to prepare a strategy.

The purpose of this report is to update Cabinet on the proposal developed by SRP to bring forward smaller development sites and to seek approval to utilise this delivery mechanism in favour of establishing a SHC.

2 Recommendation(s)/Proposed Action

The Cabinet is requested to resolve that:

- (a) It be noted that SRP has substantially amended its operating model to allow the development of HRA and General Fund sites with a works cost that exceeds £75,000.
- (b) The Small Sites Development Strategy be agreed to be delivered via SRP.
- (c) It be agreed that Council officers should proceed on the basis that the sites at Upton Road and Alpha Street will be disposed to and developed by Slough Regeneration Partnership, subject to Cabinet approval for a sum that represents no less than the best value valuation.
- (d) The initial list of sites and outline programme for the Strategy, as set out in Appendices One and Two, be agreed.
- (e) That an update report be provided in March 2016.

3. The Slough Joint Wellbeing Strategy, the JSNA and the Five Year Plan

The creation of expediently delivered high quality new housing, as previously reported, will maximise the value of the Council's asset base, increase council tax

receipts and will provide an income stream that could contribute to the provision of front line services.

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

Constructing the new housing will improve local temporary employment opportunities as well as increasing apprenticeship opportunities enabling local people to improve their learning and skill base. Regenerating the sites will improve the quality of the built environment and the image of the town whilst providing much needed housing accommodation. The schemes will be designed with security as a key consideration and the sites will be constructed in line with current Health and Safety regulations.

3b. **Five Year Plan Outcomes**

Working effectively and expediently with the SRP to deliver smaller site will address the five year plan outcomes through:

- Quality new homes will encourage people who work in Slough to also live in Slough which will in turn help businesses of all sizes to locate, start, grow, and stay,
- It will directly address the need for more homes in the borough, with quality improving across all tenures,
- The central sites such as Alpha St will contribute towards keeping the centre Slough a vibrant location to live,
- Designing schemes with security as a priority will help to ensure Slough is a safe place to live and all sites will aim to achieve Secure By Design certification.
- Quality homes will attract upwardly mobile residents who are more likely to take responsibility for their own health, care and support needs,
- Ensuring the scheme are designed in line with amenity requirements will contribute towards children and young people in Slough being healthy and resilient; and
- Participating in the development risk will ensure the Council's income and the value of its assets are maximised.

4 **Other Implications**

a) **Financial**

The report to Cabinet in January 2015 provided detailed financial analysis in section 6.3 and appendix two and confirmed that, despite taking 14 years to payback, the greatest overall return was provided by the build to rent model but when considered in terms of return on investment the build to rent only generated 4% pa relative to the build to sell which generated between 22% - 23% pa depending on which vehicle was assumed.

Since the report the number of sites available for private development has diminished due to alternative disposal options.

Whilst this report comes with no financial implications, Cabinet should be aware that the anticipated financial benefits from utilising the SRP delivery model are lower than the projected income generated via the SHC approach. However this has to be balanced against the significantly reduced risk (as set out in section 5 of this report).

Updated comprehensive estimates of the current financials are detailed in Appendix One.

In addition to financial advantages considered in Appendix One, bringing forward the sites for residential use will also create additional council tax income in the region of £200k per annum, which would be doubled for the first six years to £400k per annum under the current central government New Homes Bonus scheme introduced in 2010.

b) Risk Management

Risk	Mitigating action	Opportunities
Legal – SRP is sued by creditors of the joint venture	There are clear firewalls between the Council and the SRP	The SRP is already compliant with EU and UK regulations.
Property – House prices could fall, resulting in anticipated sales values being unachievable.	Morgan Sindall 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.
Human Rights	No risks identified	
Health and Safety – workers are harm or killed during the course of construction or local residents are harm accessing the sites.	Morgan Sindall is a national construction company with established Health and Safety procedures.	
Employment Issues	No risks identified	SRP is seeking to implement a local economic benefit programme (SMEs, training, apprenticeships etc) so that the more activity SRP does, the greater the potential benefit in relation to job creation.
Equalities Issues	No risks identified	
Community Support	No risks identified	
Communications	No risks identified	The development of small sites is a positive story that makes the best use of Council assets. The potential exists to promote SRP to highlight how the JV is helping the Council deliver a range of sites throughout Slough.
Community Safety – local residents/ workers harmed during construction.	Morgan Sindall is part of the Considerate Constructor Scheme (CCS).	
Finance – 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 the SRP are at 7 to 12.5% generating significantly higher rates of return for a relatively modest risk separate and in addition to SBC's share in development profits on the private units.

Timetable for Delivery – schemes are delayed unnecessarily		Using the existing legally established subsidiary company will ensure expediency in delivery.
Project Capacity – lack of resource delaying delivery	SRP have employed additional management staff to cover the new work streams.	
Governance – Poor performance	The SRP has an established board of directors that are already competently directing the company's business.	Board members are from both the private and public sector ensuring a balance between commerciality and long term objectives.
Performance – failure to develop land transferred to subsidiary	The SRP is already developing sites successfully and pays SBC interest from the moment the land is transferred.	Increasing and improving the number of projects and resource within the SRP will improve its long term viability and success.

c) Human Rights Act and Other Legal Implications

The smaller developments are within the scope envisaged during the establishment of SRP which was procured through a process compliant with EU and UK Regulations and so does not raise any procurement or regulatory issues.

d) Equalities Impact Assessment (compulsory section to be included in **all** reports)

There are no equalities issues associated with this report.

e) Property Issues

See below.

5. **Supporting Information**

Background

- 5.1 In January 2015 a report was presented to Cabinet detailing how a commercial, wholly owned, SHC could be established by the Council to develop high quality houses for private sale on smaller sites. The report showed how such a company could work in terms of legal structure, governance and financial performance. It was reported that a SHC would be a purely residential development company that aims to maximise short term development receipts assisting the Council's short term financial position and utilising its skills and capital to realise the development profit in the land holdings. It was also envisaged that the SHC would not build affordable housing for rent.
- 5.2 Whilst the introduction of a SHC could maximise the financial return to the Council, it was acknowledged that (despite the buoyancy of the housing market) this option would introduce a substantially higher degree of risk to the Council than pure asset disposal. Against this background and the SRP's willingness to reconsider its operating model to accommodate the inclusion of sites under 20 units, the Council has delayed developing proposals for a wholly owned company. The SRP have also undertaken to deliver purely affordable housing schemes under 20 units which is a function that wasn't envisaged for the SHC due to commercial constraints.

- 5.3 The Cabinet paper in January considered in detail the various options available to the Council. Based on current figures developing through either a SHC or the SRP delivered significant returns on investment, 25% pa annum relative to 18% pa respectively (see Appendix One for further financial information) but clearly the risk associated with a wholly owned subsidiary are significantly higher with some of the main considerations being:

Internal capacity – The Council has no previous experience of developing private housing for sale, whilst this could be overcome by backfilling existing posts and buying in expertise as required, this would introduce a material degree of risk. The affordable housing delivery probably could be undertaken in house via Property Services but the inefficient procurement process could create significant delays. If necessary the affordable housing delivery could be removed from the SRP's remit.

Commercial Losses – the residential market moves in cycles and failing to respond to movements in the market in time could leave SBC realising commercial losses on homes.

Negative Press – failing to manage the delivery quality of the homes and associated aftercare effectively could lead to negative press directed at SBC if delivered through a wholly owned SHC.

SRP Proposal

- 5.4 Following a review of the objectives and aspirations for SRP, the operating model has been reviewed. It has been agreed that the resources applied by Morgan Sindall Investments Limited (acting in its capacity as "Development Manager") should be widened and deepened to facilitate a response to bringing forward smaller residential sites either from the Housing Revenue Account ("HRA") or the General Fund ("GF") land banks.
- 5.5 In addressing this development programme, SRP will not 'cherry pick' only the most commercially viable of the smaller sites but will bring forward proposals to develop sites of all sizes at a comparable rate in line with the Partnership Objectives and provide a delivery service for the HRA sites.
- 5.6 SRP is now committed to the delivery of smaller sites and demonstrate value for money providing the construction costs are in excess of £75,000. This cost threshold allows the inclusion of several smaller gap sites and extensions for affordable housing. Where individual scheme costs are at or around this level, SRP will engage with the Council to agree the best way forward in each case, for example through batching or bundling projects together to enhance value for money where practicable.
- 5.7 It is proposed that Morgan Sindall plc Special Works division will be approached to act as main contractor in the first instance and if they decline or are unable to meet the required criteria, the small sites will be delivered through suitable contractors tendering for the work and selected in accordance with Part A of SRP's Procurement Policy. Morgan Sindall Investments Limited ("MSIL") will act as Development Manager for SRP whether or not a Morgan Sindall Group company (i.e. Morgan Sindall Construction and/or Lovell Partnerships) acts as the main contractor. If a smaller or alternative contractor were to be used, SRP would still have access to MSIL's expertise and Health & Safety systems.

- 5.8 In the event that Cabinet approves the development of small sites via SRP, a single Development Subsidiary of the partnership will be incorporated to take forward the programme.
- 5.9 As per the agreement with SRP, the Council will receive the independently verified Market Value for its land assets, will have a high level of oversight and joint control over the development process and will share equally in the development profits.
- 5.10 On the purely affordable housing sites the SRP will have to comply with the same procurement standards as the larger site ensuring best value is achieved for each build package.

Proposed Development Sites

- 5.11 In conjunction with the Council, SRP has developed a programme that contains 34 sites and has the potential to generate circa 24 homes for sale and circa 113 affordable housing units for rent by late 2017. The financials associated with the private sites are considered in Appendix One, with the indicative development programme contained in Appendix Two.

Current Position

- 5.12 The sites listed in Appendix One are at various stages from “current undeliverable” through to “with planning consent”. To date, the following approach has been undertaken to deliver the strategy:

Stage	Programme
An audit of all potential sites has been undertaken summarising all development and planning related work and site investigations carried out to date.	Complete
Recommendation for the development programme and phasing has been prepared including proposals for each site and any batching or bundling of sites. See Appendix 1 for the current working draft.	Complete.
Lead design team have been appointed by SRP following a selection process agreed in consultation with SBC together with a procurement strategy for selecting a main contractor(s), all in line with SRP's Procurement Policy.	Complete
A fast track Indicative Site Development Plan(s) process will be run in accordance with the procedure set out in the Partnership Agreement.	July - September 2015.
Fast track Formal Site Development Plan process to be run, planning consent obtained (if not already in place) and development proposals finalised prior to start on site.	September - December 2015.

6 Comments of Other Committees

- 6.1 This report has not been considered by any other committee.

7 Conclusion

- 7.1 The SRP has already made significant changes to its resourcing to ensure that it can deliver on smaller residential sites. By utilising the commercial development, supply chain and construction management, sales and after-sales expertise of Morgan Sindall Investments as the Development Manager, the smaller sites can be

redeveloped efficiently within the SRP. This will reduce risk to the Council and allow officers to focus on delivering key regeneration sites. The Council will receive the independently verified Market Value for its land assets where those are disposed of, will have a high level of oversight and joint control over the development process and will share equally in the proceeds. For HRA sites, the Council will have control over the programme, housing mix, design and specification with the SRP securing expedient and cost effective delivery.

- 7.2 Committing to and fully utilising the existing partnership will ensure it's longevity whilst ensuring sustainably managed long-term returns to the Council at significantly reduced risks relative to creating it's own wholly owned development subsidiary.

8 **Appendices**

Appendix One – Options Appraisal (Delivery Vehicle) – Part II, contains exempt information.

Appendix Two – Indicative programme for Small Sites Development Strategy

Appendix Three – Status Table of SBC Small Sites

9 **Background Papers**

None.