

## **SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Cabinet **DATE:** 14 March 2016

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**WARD(S):** All

**PORTFOLIO:** Neighbourhoods & Renewal - Cllr Swindlehurst  
Leader of Council - Cllr Anderson

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

#### **PROPOSED DISPOSAL OF LAND AT WEXHAM NURSERY TO SLOUGH REGENERATION PARTNERSHIP**

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

As part of the delivery of the Slough Regeneration Partnership LLP (SRP) objectives, the Cabinet is required to decide upon the disposal of Slough Borough Council land to the SRP. The purpose of this report is to seek approval to dispose of land at Wexham Nursery to Slough Regeneration Partnership (SRP) to commence a 104 unit housing development.

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

The Cabinet is requested to resolve to:

- a) Authorise the disposal of land at Wexham Nursery to SRP for a sum that represents no less than the best value valuation, if the option granted in respect of the land is exercised.
- b) Delegate authority to agree the final valuation sum to the Assistant Director, Assets Infrastructure & Regeneration, following consultation with the Leader and the Council's section 151 officer; and
- c) Delegate authority to the Assistant Director Assets, Infrastructure and Regeneration, following consultation with the Cabinet Member for Neighbourhoods & Renewal, to approve the non-financial terms for disposal.

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

The creation of expediently delivered high quality new housing, will maximise the value of the Council's asset base, increase council tax receipts and provide an income stream that can be used to contribute towards the provision of front line services.

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

The new housing proposed will improve local temporary employment opportunities whilst increasing apprenticeship opportunities enabling local people to improve their

learning and skill base. Delivering the proposed scheme will improve the quality of the built environment and the image of the town whilst providing much needed housing accommodation. The scheme is designed with security as a key consideration and 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 the proposed scheme addresses 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,
- The homes proposed directly address the need for more homes in the borough, with quality improving across all tenures,
- Increasing the housing stock in Slough will contribute towards keeping the centre of Slough viable and vibrant,
- The scheme has been designed with security as a priority and will help to ensure Slough is a safe place to live,
- Quality homes will attract upwardly mobile residents who are more likely to take responsibility for their own health, care and support needs,
- The scheme is designed in line with amenity requirements and will contribute towards children and young people in Slough being healthy and resilient; and
- Participating in the development risk will ensure that the Council’s income and the value of its assets are maximised.

4 **Other Implications**

a) Financial

The land value represents the Council’s equity investment into SRP. 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 SRP which is intended to be repaid on the development’s completion. Because the land value represents the Council’s “equity investment” in SRP, the risk of the development and land value remains for all practical purposes 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 upon whether there are sufficient funds available from the eventual sale of the completed development.

b) Risk Management

<b>Risk</b>	<b>Mitigating action</b>	<b>Opportunities</b>
<p><b>Legal</b> – SRP is sued by creditors of the joint venture</p> <p>Legal – Action is brought against the Council if the land is not transferred as it is subject to an option .</p>	<p>There are clear firewalls between the Council and the SRP</p> <p>Authority of Cabinet is obtained and the land is transferred in accordance with the terms of the option if the option is exercised</p>	<p>The SRP is already compliant with EU and UK regulations.</p> <p>This report to Cabinet</p>

<b>Property</b> – 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.
<b>Human Rights</b>	No risks identified	
<b>Health and Safety</b> – workers are harm or killed during the course of construction or local residents are harmed accessing the site.	Morgan Sindall is a national construction company with established Health and Safety procedures.	
<b>Employment Issues</b>	No risks identified	SRP is implementing 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.
<b>Equalities Issues</b>	No risks identified	
<b>Community Support</b>	No risks identified	
<b>Communications</b>	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.
<b>Community Safety</b> – local residents/ workers harmed during construction.	Morgan Sindall is part of the Considerate Constructor 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 the SRP are at 7 to 12.5% generating significantly higher rates of return for a relatively modest risk. These returns are separate and in addition to SBC's share in development profits on the private units.
<b>Finance</b> - The "price" does not realise best value	External consultants have been appointed to confirm that the land price reflects the best value valuation for the site.	The indicative price discussed at present is far higher than the original indicative price assumed when the 'LABV' was created
<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	Once crystallised, a fixed price contract is agreed therefore the risk is with the main contractor acting for SRP.	
<b>Timetable for Delivery</b> – schemes are delayed unnecessarily		Using the existing legally established subsidiary company will ensure expediency in delivery.
<b>Project Capacity</b> – lack of resource delaying delivery	SRP have employed additional management staff to cover increasing work streams.	
<b>Governance</b> – 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.

<b>Risk</b>	<b>Mitigating action</b>	<b>Opportunities</b>
<b>Performance</b> – 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 the number of projects and the resource within the SRP will improve its long term viability and success.
<b>Planning</b> – several pre-planning conditions remain outstanding which could delay the site start.	SRP is working closely with Building Control, Planning and Highways to enable the conditions to be discharged.	

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

Local authorities are generally under a duty to comply with Section 123 (2) of the Local Government Act 1972 which requires that except with the consent of the Secretary of State a Council shall not dispose of land under this section for a consideration less than the best that can reasonably be obtained. Section 123 issues are addressed in Section 6 of this report. The independent valuation will confirm that best value has been achieved..

#### d) Equalities Impact Assessment

There are no equalities issues associated with this report.

#### e) Property Issues

This site is included in the option agreement between the Council and SRP. The option agreements sets out the conditions SRP needs to satisfy before the land is transferred from the Council to the joint venture company. As mentioned above, Section 123 (2) of the Local Government Act 1972 prevents the Council from disposing of land for less than the “best that can reasonably be obtained” without the consent of the Secretary of State. In the case of Wexham Nursery, the land value represents the “best that can reasonably be obtained” on the basis that site now has the benefit of planning permission and the land value has been calculated on what is termed a residual land value basis. In other words the land value is the Gross Development Value of the completed development less the costs required to carry out the development (excluding land but including profit).

The costs of undertaking the development have been subject to both a market testing exercise and also in the case of the construction costs, an open book tender exercise has been completed for all of the major sub-contractor packages which has been overseen by an independent Quantity Surveyor appointed by SRP.

Disposals below ‘best value’ will need to come to Cabinet as a separate paper for decision.

### 5. **Supporting Information**

#### **Site Description**

- 5.1 The site at Wexham Nursery is approximately 3.5 Ha and is a former horticultural nursery. The site is currently vacant. The land to the East is a school playing field, to the North a residential development. To the South, health care facilities are located next to Extra-Care Home apartments. Wrexham Lodge is situated in a prominent position on the site and has been sensitively considered within the proposals.

## Slough Regeneration Partnership

- 5.2 The Council entered into a Limited Liability Partnership with Morgan Sindall Investment Limited and formed Slough Regeneration Partnership (SRP) in March 2013. This followed a competitive process that commenced in 2011 in which the Council sought a private sector partner to help bring forward its regeneration priorities via the Local Asset Backed vehicle (LABV) model.
- 5.3 The role of SRP is to offer a long-term approach to regeneration. Through the joint venture, the Council will receive a higher level of return from the disposal of assets (in this case Wexham Nursery) through the Joint venture route than through a straightforward disposal with the benefit of planning. In addition to receiving the full market value for its land the Council (because it is a 50% partner in SRP) will also receive 50% of the residual profit upon completion of the development.
- 5.4 Over the past 3 years joint working has been undertaken between SRP and the Council to develop plans for several sites in order to deliver the pipeline of regeneration. These have been discussed in several reports to Cabinet, including the annual update on the SRP Partnership Business Plan – the most recent version of which was approved by Cabinet on 13 April 2015. Within the Partnership Business Plan it is noted that SRP has an option to purchase the site at Wexham Nursery and that it will be developed as 104 units with the first units available at the end of 2016.
- 5.5 Morgan Sindall has funded the costs incurred to date on progressing the scheme, including the planning application and the detailed design. These Advance Sums represent Morgan Sindall's initial investment in SRP and are essentially a loan from Morgan Sindall to the SRP. The final land value represents the Council's investment in SRP in a similar way to Morgan Sindall's Advance Sums. Under the terms of the LLP Members Agreement, Morgan Sindall are obligated to provide further sums, so that the sums loaned by Morgan Sindall to SRP matches the final site value. Both these loans (the final land value loan note and Morgan Sindall's loan to SRP will be repaid by SRP at the end of the development. Any surplus will then be distributed to the Council and Morgan Sindall at the discretion of the SRP Board. This is expected to be a 50:50 share of the net profit.
- 5.6 Subject to discharging various conditions, SRP will secure planning permission to build 104 houses. Upon completion, it is intended that SBC will acquire 34 properties for social rent, as follows:

Schedule of Accommodation					
Unit Type	Sale	Affordable	Shared Ownership	Social Rent	Total
2 bedroom house	15	0	0	21	36
2 bedroom house	24	0	0	13	37
3 bedroom house	31	0	0	0	31
<b>Total</b>	<b>70</b>	<b>0</b>	<b>0</b>	<b>34</b>	<b>104</b>

## The Mechanism & Process to Agree Land Value

- 5.7 In accordance with the legal agreements between the Joint venture partners, the value of the land to be transferred from SBC to SRP is defined as *'the Price'* which means the greater of:

- a) The Market Value as agreed between SBC and SRP or determined by an expert; and
- b) Where specified, a Minimum Land Value (in the case of Wexham Nursery Phases 1 & 2 being £5,812,976).

- 5.8 Market Value is defined as a valuation undertaken in accordance with the Royal Institution of Chartered Surveyors ('RICS') Valuation and Standards Manual (generally known as the Red Book) by an independent member of the RICS appointed jointly by SBC and MSIL (each acting in their capacity as Member of SRP) or in the absence of agreement appointed by the President of the RICS.
- 5.9 In each case, the valuation must have regard to a number of factors including the satisfaction of the site conditions, the planning permission and related conditions and agreements, the funding terms and development appraisal and the specification of the development.
- 5.10 The "Price" for the land at Wexham Nursery will be determined by the independent surveyor appointed by SRP.
- 5.11 Following a series of meetings between SBC and SRP to discuss a number of issues including sales values, construction costs, marketing costs and sales periods the final land valuation, prepared by independent chartered surveyors (Savills UK Ltd), is attached at Appendix 1.

## **6 Comments of Other Committees**

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

## **7 Conclusion**

- 7.1 The original land value for Wexham Nursery was set at £5,812,976 in 2012. This value was based on outdated proposals, sales values and development costs at the time.
- 7.2 The process to agree the final land valuation is ongoing and will be completed imminently.

## **8 Appendices**

Appendix 1 – Independent Land Valuation – Wexham (Part II - contains exempt information) – TO FOLLOW

## **9 Background Papers**

None.