

SLOUGH BOROUGH COUNCIL

REPORT TO: Overview & Scrutiny Committee **DATE:** 24th November, 2008
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PART I **FOR CONSIDERATION & COMMENT**

HEART OF SLOUGH – UPDATE ON SCHEME PROGRESS & APPROVAL OF BUS STATION DESIGN & KEY TERMS WITH DEVELOPMENT PARTNER

1 Purpose of Report

This report provides an update on the current position with the Heart of Slough project and in particular the “Bus Station” Quadrant and discussions with Development Securities. Cabinet are asked to consider a number of financial options for progressing this element of the project.

2 Recommendation(s)/Proposed Action

The Committee is invited to comment on the following recommendations to Cabinet :

- (a) That the overall progress on the scheme since the submission of the master plan be noted.
- (b) That the options around the proposed sale/transfer of land to Development Securities be considered and recommendations around the preferred option be approved (following further discussions, officers will submit a recommended way forward on the night).
- (c) That the outline design of the new bus station be approved and that the appointment of the contractor in relation to the bus station redevelopment be progressed with Gardner & Theobald through the existing OGC framework arrangements in place for the Library.
- (d) That the previous delegation to the Assistant Director, Property Services be transferred to the Strategic Director of Resources to progress the scheme as required.
- (e) That Officers be instructed to investigate using compulsory purchase powers as a fall back position in the event of terms not being agreed with First Bus by negotiation.
- (f) That the current risk register be noted.

3 **Community Strategy Priorities**

At the centre of the town's regeneration it is believed that the Heart of Slough, either through its construction or the services and activities provided from it, will support all of the following:

- Celebrating Diversity, Enabling Inclusion
- Adding Years to Life and Life to Years
- Being Safe, Feeling Safe
- A Cleaner, Greener place to Live, Work and Play
- Prosperity for All

4 **Other Implications**

(a) Financial

The Heart of Slough proposal is a complex project with a number of significant financial implications for the Council. In summary:

- Funding of library.
- The possibility of undertaking road works on EP's behalf any risks that may arise from this.
- Sale of land to facilitate development.
- Transfer of funds to English Partnerships.
- Current and future capital receipts.

The full financial implications will be finalised once the detailed terms are agreed with the development partners. This is expected within the next two months at which time a further report will be brought outlining the precise terms and financial implications.

It should be noted that there is currently provision of £12m in the capital programme (2006-2011) to cover this scheme. The significant changes in the library building will mean that additional funding will be required, probably towards 2010/11. However, the full extent of this funding will not be known until the financial terms are agreed with the development partners. In light of the current market circumstances there will also be need for pump priming arrangements if the Council wishes the scheme to progress. These have been included in Budget Strategy item.

(b) Human Rights Act and Other Legal Implications

None

5 **Supporting Information**

Background

5.1 The Heart of Slough is a major regeneration project covering four sites immediately adjoining the Wellington Street/William Street Roundabout. These are the Thames Valley University site, the Brunel Bus station, land adjoining St Ethelbert's Church and the existing central library site.

5.2 The Heart of Slough is a joint arrangement between:

Party	Principal role
Slough Borough Council	Principal landowner and local authority
English Partnerships	Central Government's regeneration agency – key funder who will deliver new road layout and bus station
Thames Valley University	To bring forward their element of their site along with the Council to dispose of to a Residential developer with responsibility for developing the whole or phases of the TVU site.
Development Securities	Commercial office developer with responsibility for developing the existing Brunel Bus Station site.

5.3 In January 2006 the ODPM confirmed its gross funding of £17.52m (£13.5m net) for the costs of infrastructure works (road works, bus station, creation of new church square and environmental works). EP's funding and their calculations were broken down as follows;

5.4 In July 2008 the masterplan was submitted.

Overview of scheme

5.5 The Heart of Slough development aims to create:

- A new road layout by replacing the existing roundabout with a crossroads and ensuring pedestrians cross at street level rather than via underpasses.
- 1,300 new homes.
- 350,000 sq ft of new offices.
- A new bus station
- A new library/civic building
- New restaurants/cafes/shops
- New open spaces/squares.

Objectives of the scheme

5.6 The scheme has a number of objectives

- (a) The physical regeneration of the area
- (b) To challenge and change the perception of Slough
- (c) A commitment to high quality design to support objective (b)
- (d) All development to meet high levels of sustainability and energy efficiency
- (e) The creation of new open spaces
- (f) Improvement in public transport and the creation of an improved transport hub.
- (g) Draw people back into the central areas of the town and the library would provide a real community focus.

5.7 Members also felt that the proposed road scheme gave redundant space back to the town and provided a much better use of space generally. The highway scheme conformed to the local transport plan and would increase public transport patronage, reduce traffic and reduce congestion which would in turn reduce air quality issues.

THAMES VALLEY UNIVERSITY SITE

- 5.8 As members are aware Berkley homes withdrew from the Heart of Slough before the master plan was submitted. Negotiations have continued with Thames Valley University (TVU) since to negotiate that their element of the TVU site is brought forward with the Council's part of the site to deliver the whole site as part of the master plan.
- 5.9 Berkley homes had no commitment to build out the site until the market conditions were appropriate, so in the current circumstance there is no delay to the delivery of the scheme and gives time to tender for a developer.
- 5.10 Discussions with TVU continue and are going positively, but there is obviously a risk that TVU will not bring the site forward due to current market circumstances or not until the value of the site has risen again.
- 5.11 This in itself may delay English Partnerships (EP) commitment to commence the highway infrastructure.

BUS STATION / COMPAIR HOUSE SITE

Negotiations with First Bus Group

- 5.12 First Bus Group currently has an occupational licence to use the bus station and a lease of space within the building which provides staff accommodation, shop and travel centre. These agreements expire in 2018. To ensure the development proceeds, the Council needs to negotiate a surrender of these agreements.
- 5.13 Some detailed negotiations have been commenced with First Bus, around the design and layout of the bus station and around offering them a new lease and licence of the bus station on similar terms to those that currently exist.
- 5.14 To date, terms have not been agreed but negotiations are ongoing. In order to protect the Council's position it is suggested that officers investigate using compulsory purchase powers to acquire First Bus's interest as a "fall back" position in the event of negotiations failing.

Negotiations with Development Securities Background

- 5.15 This element of the project includes, the site of Compair House (owned by Development Securities) and the existing Brunel bus station car park (owned by the Council).
- 5.16 Development Securities have verbally confirmed that they remain committed to Heart of Slough. Maintaining the support of a key commercial partner in the current market is considered key to maintaining momentum and confidence in Heart of Slough; so their continued support for the scheme is to be welcomed.
- 5.17 The Cabinet report of 21st January 2008 outlined the agreed Heads of Terms with Development Securities the Council's preferred developer for this element of the scheme. This transaction, which had been negotiated over quite a considerable time

period, was conditional on a number of events occurring. The main ones are the English Partnership monies being made available and the Council being in a position to deliver vacant possession of existing bus station either through agreement or using their compulsory purchase powers.

5.18 Once these happened :-

- Development Securities would transfer the cleared Compair House site to the Council. The intention was that the new bus station would be constructed on the Compair House site and the cost of this would be funded by the Council and English Partnerships.
- The Council would grant a long lease of the Brunel Bus Station and car park to Development Securities, who propose to redevelop this site in a number of phases for a high quality office scheme of approximately 48,000 sq m.
- Development Securities would also make a payment to the Council for the site. This was an advanced payment, for what they then estimated the Brunel bus station site to be worth as an office redevelopment opportunity.
- There were also overage arrangements (mechanisms through which the Council would share in super profits arising from the development once Development Securities had reached their required profit returns.
- The land value was calculated by valuing what the scheme would be worth when completed and then deducting all the development costs incurred, (construction, fees, predevelopment costs, finance, tenant's incentives, developer's profit etc). As part of this calculation Development Securities were also assuming they would include as a Development Cost their costs of acquiring Compair House.
- Development Securities were only obliged to develop out the Brunel site once they were satisfied that they would reach their profit returns for each phase.

Current position

5.19 Since agreeing these terms the property market, like the rest of the economy, has been through and is still in some very turbulent times. End values have fallen considerably, finance for schemes is very difficult and expensive to secure, especially where there is no end tenant. Where tenants are considering taking space they are demanding much greater incentives and build costs have continued to rise although it is predicted this could well change shortly.

5.20 Reductions in the value of property have been seen across all sectors and many proposed development schemes have been placed on ice or completely abandoned. Not surprisingly Development Securities have had to reappraise the scheme, this has included looking at ways of reducing costs – whilst maintaining the design standards required by English Partnerships. They have also, as part of their bid for the Council's office requirement, been redesigning the scheme to enable parts of this to come forward before the major Heart of Slough infrastructure works are completed. (This redesign culminated in their recent detailed planning application for Phase 1 of the development).

5.21 The fall in values has also affected Development Securities landholding – Compair House. Originally Development Securities expected to recover their purchase costs from any redevelopment. They have had to now accept that they are only likely to recover part and take a write down on the original purchase price.

5.22 If today's values and inputs are utilised to achieve the developer's profit return, the land value is in effect a negative figure i.e. the costs are higher than the end value of the scheme. In order to provide the Council with positive land receipts, there will need to be improvement in the end value assumptions which means relying on an improvement in market conditions and /or a reduction in costs. Any costs reduction is likely to come from changes in design rather than a significant reduction in the construction prices. The higher the land premium required, the greater the improvements in value required and potentially the time period in which the development will take to be viable.

Initial Financial Proposal and Other Options

5.23 Whilst Development Securities are at this stage still committed to the scheme, for the reasons set out above, the structure and quantum of any offer they can now make to the Council are substantially different to their previous proposal.

5.24 The Council's advisors DTZ and Drivers Jonas have met with Development Securities on a number of occasions in recent months to review, in the light of market circumstances, how we could both work towards an early development of this element of the project. In particular they have been considering mechanisms which would improve viability but still deliver the Council some receipts.

5.25 This has meant considering issues such as delaying payments to the Council until practical completion of the phases, rather than an upfront payment when the development agreement goes unconditional.

5.26 The exact amount of a revised offer is still being considered by the Development Securities Board with an update anticipated to be available by the date this report will be discussed.

5.27 The terms set out in Part II of the report have been provisionally proposed by Development Securities. As before they will not be committed to carrying out development until they are relatively confident they can achieve their required profit margins. Once they however start on site they will guarantee the fixed payments plus profit share arrangements for each Phase once they have completed the scheme.

5.28 To compensate for the reduced premium, Development Securities have offered a more preferential overage to the Council which both raises the Council's percentage share of any additional profit which is derived from the scheme, as well as lowers the threshold when it becomes payable.

5.29 They have also made similar proposals for a pre-Heart of Slough arrangement i.e. they would proceed with the scheme, assuming it became viable, without the certainty that the English Partnerships funds were available. This would involve a somewhat smaller scheme so a reduced fixed premium.

5.30 These are also outlined in Part II so members can consider the various routes which could be available, and a further verbal update will be provided on the night as discussions progress.

New Bus Station

- 5.31 Detailed designs for the new bus station have now been submitted along side the master plan. These have been worked up in consultation with First Bus Group to provide a safe and secure working bus station.
- 5.32 Details of the plan have been placed in the Members' Room and will be available on the night for inspection, some of the outline drawings are shown in the attached **Appendix A**.
- 5.33 There are a number of elements to the bus station and building of it that can be taken in phases. These are:
- Acquisition of free hold of this site and release of current bus station site
 - Construction of the main Bus Station
 - Construction of Ancillary Building
- 5.34 The costs of bus station are contained in **Part II** report and assume a worst case scenario.

NEW LIBRARY/CIVIC BUILDING SITE **Outline of scheme and key benefits**

- 5.35 The proposals plan a new building of around 65,000 square feet that will accommodate the new library and life long learning centre and has the capacity to accommodate other complementary users. Officers are reviewing the scope for what else the building could be used for.
- 5.36 The vision for the building is for the principal use to be a library but accommodating a number of complementary uses.
- 5.37 The plans proposes two new public spaces; a private, "green" space adjoining the library for its users and a hard landscaped public square to the north that could be used (for example) for street markets and entertainment.
- 5.38 A new church hall would be provided replacing the existing "portakabin". The proposal will vastly improve the setting of St Ethelbert's Church, a Grade II listed building. The design of the new library building will be sensitive to the need to enhance the setting of the church.

Negotiations with Church

- 5.39 The proposed development is dependent on an agreement with the church due to the need to create a new space on church land and relocate the existing church hall.
- 5.40 Negotiations with the Diocese to date have been positive and they have welcomed the change in emphasis in this area from a commercial area to a "civic" one. The proposals will require the Council to construct a replacement church hall and landscaping, in exchange for the land necessary to facilitate this development.

EXISTING LIBRARY SITE

Outline of scheme and key benefits

5.41 EP have acquired the rights the current library site and are proposing to bring it forward for cafes and shops on the ground floor, with some residential and a possible high class hotel above.

INFRASTRUCTURE

5.42 English Partnerships have indicated they wish the Council to let the contract for the infrastructure works on their behalf. Officers believe this request appears reasonable, in principle, provided the Council is not exposed to any contractual or financial risk as a result. The procurement route needs to follow EP's requirements and EP and the Council are working jointly to deliver this.

Key risks

5.43 A scheme of this size and complexity contains risks. These are being minimised through good management, effective project management and review procedures.

Risk	Mitigation	Owner
Loss of EP funding	EP has confirmed its commitment to the scheme and how shown flexibility of the time of the expenditure. The risk is considered low provided the scheme progresses to the current programme.	EP/SBC
Receipt of planning permission	EP's team is in extensive discussions with the Council's Planning and Highways Officers to ensure the scheme meets their requirements. There will also be extensive public consultation. All steps are being taken to minimise the risk to try and ensure the application is recommended for approval.	EP
Application is "called in" by Government Office for the South East (GOSE)	Informal discussions have been held with GOSE. A robust approach to the planning process will minimise the prospect of the application being "called in" but due to the scale of the scheme there is an inherent risk that this could occur. This would cause a delay in granting planning and also cause a period of uncertainty.	EP
Infrastructure works being over budget	The nature of the scheme has expanded and works have not commence as soon as EP assumed.	All

	<p>This has added pressure to the predicted infrastructure costs of approximately £3.5m.</p> <p>The planning department have been working with EP looking at the option of applying a tarriff to other new planning applications that come forward. Ultimately the final risk will sit with the Council.</p> <p>The Council may need to put contingency arrangements in place to fund any shortfall, although in the current market constructions costs are falling.</p>	
Stopping up order	<p>The highway land around the round about needs to be “stopped up” (i.e. removed from the highway). There is a legal process to achieve this which includes the possibility of a public enquiry being called.</p> <p>The planning and highways work will help support the case and good consultation with affected stakeholders will minimise the risk of an enquiry</p>	EP
World Economic Climate	<p>There was no obligation on either the developer of the Residential or commercial properties to build until market conditions were viable. This does not change the situation but may delay commenced of these aspects of the scheme.</p>	All
TVU site	<p>The commitment of TVU to bring forward their site, within reasonable time scales for EP to release the funds to start the infrastructure works.</p> <p>The Council could acquire part of the TVU site to add to its land to bring forward at the earliest opportunity to give EP the commitment they wish to see, with the later phases coming after.</p>	All

6 **Conclusion**

The Heart of Slough represents a significant opportunity to both regenerate Slough town centre and improve the town's image.

The dramatic slowdown of the commercial property market since the "credit crunch" of August 2007, has inevitably had a significant impact upon the viability of new speculative development. Development Securities whilst still committed to the project are no longer able to proceed on the previously agreed financial terms.

The Heart of Slough like many complex regeneration schemes requires a medium view to be taken on returns and values. In addition Development Securities are still some way off being able to commence development on the Brunel site as this depends on the relocation of the bus station. Whilst it is clear no speculative development is likely to commence in the immediate short term and commentary is mixed on when activity will return within the property sector, it is important that steps are taken to enable early development of the site once the market conditions start to improve.

Progress is being made with the scheme generally. We are hoping that planning permission for the new bus station and Phase 1 of the Development Securities scheme will be granted early in the New Year with a resolution to grant planning permission for the masterplan soon after this.

Discussions are proceeding with other landowners and stakeholders including First Bus.

Obtaining control of the Compair House site will enable the Council to commence on site with the new bus station in 2009 which would reflect positively upon Slough's image in a time of national down turn.

Maintaining the commitment and support of Development Securities will also maintain confidence in the project.

There are a number of ways of doing this depending on the Council's priorities in terms of how members view certainty of receipts against trying to encourage this phase of the project.

7 **Appendices Attached**

Appendix A – Bus Station – Detailed designs.

See further report in the Part II agenda.

8 **Background Papers**

Agenda and minutes of previous Cabinet meetings.