

## **SLOUGH BOROUGH COUNCIL**

**REPORT TO:** Cabinet **DATE:** 5 September 2016

**CONTACT OFFICER:** Stephen Gibson; Head of Asset Management  
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**WARD(S):** Central Ward

**PORTFOLIO:** Housing & Urban Renewal - Cllr Ajaib  
Leader of Council - Cllr Munawar

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

#### **OLD LIBRARY SITE DEVELOPMENT OPTIONS**

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

- 1.1 Having agreed to build two hotels and a restaurant on part of the Old Library site (“OLS”) in June 2016 and enter into Heads of Terms with a hotel operator, it was agreed that a follow-up report should be presented to Cabinet in September 2016 to consider options for the remainder of the site.
- 1.2 Having evaluated the available options, this report seeks approval to build 60 residential apartments on the remainder of the site and simultaneously agree that these will be developed by the Slough Urban Renewal (“SUR”).

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

The Cabinet is requested to resolve:

- (a) That it be agreed that in addition to buildings two hotels and a restaurant, the mixed-use scheme should include 60 residential apartments.
- (b) That it be noted that having previously granted an option over the land, the entire mixed-use scheme will be developed by SUR.
- (c) That it be noted that a separate report will be presented to Cabinet in spring 2017 that seeks approval to dispose of the residential element for a sum that reflects the best value valuation.

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

The development of the site would make a contribution to the Regeneration and Environment of Slough’s Joint Wellbeing Strategy, as follows:

- Constructing the new developments will improve local temporary employment opportunities through SUR’s commitment to promoting employment and skills as well as increasing apprenticeship opportunities enabling local people to improve their learning and skill base.

### 3b Five Year Plan Outcomes

The residential element of the scheme will help deliver the following of the Five Year Plan outcomes:

- **OUTCOME 2:** Introducing new homes for rent and sale will contribute to realising the objective of increasing the supply of good quality housing across tenures and compliment the emerging Housing Strategy.

### 4 Other Implications

#### (a) Financial

The land value that will be generated will represent the Council's equity investment into SUR. This equity investment is documented in what is termed a loan note. The loan note is a document which records the fact that the Council has loaned money to SUR which is intended to be repaid on the development's completion.

Because the land value represents the Council's "equity investment" in SUR, 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>
<b>Legal</b> – SUR is sued by creditors of the joint venture Legal – Action is brought against the Council if the land is not transferred as it is subject to an option.	There are clear firewalls between the Council and SUR.  Authority of Cabinet is obtained and the land is transferred in accordance with the terms of the option if the option is exercised	
<b>Property</b> – The impact of the EU Referendum is largely unknown. House prices could fall, resulting in anticipated sales values being unachievable.	Morgan Sindall Investment Limited are a commercial partner and will ensure all development realised is financially viable and synced to market cycles.  The impact of Crossrail and Western Rail Access to Heathrow is anticipated to retain high property values in Sough.	The Council will participate in any growth in value achieved during the construction period.
<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	SUR is implementing a local economic benefit programme (SMEs, training, apprenticeships etc) so that the more activity SUR does, the greater the potential benefit in relation to job creation.
<b>Equalities Issues</b>	No risks identified	
<b>Human Rights Issues</b>	No risk 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 SUR to highlight how the JV is helping the Council deliver a range of sites throughout Slough.
<b>Community Safely – local residents/ workers harmed during construction.</b>	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 SUR 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.  The potential exists for the Council to acquire the completed units via a Subsidiary Housing Company – although this is subject to approval of such an initiative.
<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 SUR.	
<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	SUR have employed additional management staff to cover increasing work streams.	
<b>Governance</b> – Poor performance	The SUR has an established board of directors that are	Board members are from both the private and public sector

	already competently directing the company's business.	ensuring a balance between commerciality and long term objectives.
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(c) Human Rights Act and Other Legal Implications

Under Section 123 of the Local Government Act 1972 the Council have power to dispose of any land held by them in any manner they wish but cannot dispose of it for less than the best consideration than can reasonably be obtained unless they have the consent of the Secretary of State to do so. Accordingly the Council would have power to dispose of the land to SUR for the best consideration that can reasonably be obtained without the need to obtain the Secretary of State's consent or for less than best consideration with his specific consent. The Secretary of State has issued a General Consent (The Local Government Act 1972: General Disposal Consent (England) 2003) under which Council's may dispose of land for less than best consideration if the Council consider that that the purpose for which the land is to be disposed of is likely to contribute to the economic, social or environmental well-being of the whole or any part of their area or of all or any persons resident or present in their area and provided that the difference between the unrestricted value of the land in question and the consideration for the disposal does not exceed £2,000,000. The independent valuation will confirm that best value has been achieved.

(d) Equalities Impact Assessment

There are no identified needs for an EIA at this juncture.

(e) Property

The OLS is included in the option agreement between the Council and SUR. The option agreements sets out the conditions SUR 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 the OLS, the land value represents the "best that can reasonably be obtained" on the special assumption that the site will obtain 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 will be 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 SUR.

## 5 Supporting Information

- 5.1 As reported previously, the Council bought back the Old Library Site ("OLS") from the Homes and Communities Agency ("HCA") in 2015. With the impending opening of the Curve and the transfer of library services into the new facility, the OLS was

identified as a surplus asset some time ago. The site is owned by Slough Borough Council (“SBC” or “the Council”) and is subject to an option in favour of SUR.

- 5.2 In reviewing the most appropriate use for the remainder of the OLS and working on the basis that doing nothing is not an option, two credible options emerged. These are discussed in Confidential Appendix 1. On the basis of this exercise, the proposal in this report is that the Council should pursue a mixed-use development that includes two hotels, a restaurant and 60 residential apartments.
- 5.3 The image below provides a representation of the proposed massing. The hotels occupy the northern and part of the eastern sides of the site with frontage to Wellington Street and William Street, with the residential and restaurant having a primary frontage onto High Street with a return to William Street.



- 5.4 In parallel to this report, the Council is considering proposals to establish two wholly owned subsidiary housing companies. Subject to approval by Cabinet, the introduction of the residential element will provide an opportunity for the Council to realise a long-term oncome stream and capital appreciation through renting the high quality properties via Herschel Homes.

## **6 Comments of Other Committees**

- 6.1 There are no comments from other committees.

## **7 Conclusion**

- 7.1 Cabinet has already agreed to fund the construction of two hotels and a new restaurant. The introduction of a further 60 residential units on the OLS along and the transfer of the Registrar Service into the Curve are a clear indication that Slough means business and the Council is playing a key role in town centre regeneration.

## **7 Appendices Attached**

Appendix 1 – Confidential Options Appraisal (Part II – contains exempt information)

## **8 Background Papers**

None