

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 18th April 2017

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WARD(S): Central

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

PART I **KEY DECISION**

HEART OF SLOUGH – NORTH WEST QUADRANT UPDATE

1 Purpose of Report

- 1.1 Due to its size, location and proximity to the town centre, the redevelopment of the North West Quadrant (“NWQ”) has been a long-term objective of the Council. At the meeting held on 5 September 2016, Cabinet approved a report recommending that the Council should acquire the University of West London’s (“UWL”) freehold interest in the NWQ site to facilitate a comprehensive mixed-use development. In doing so it was noted that the proposed scheme would combine over 1,000 new apartments, commercial and retail/leisure uses and would be the catalyst for one of the most substantial regeneration projects in the UK.
- 1.3 The Strategic Director Regeneration, Housing and Resources was delegated authority to make an offer and agree the terms for the acquisition of the site in consultation with the Cabinet member for Housing & Urban Renewal and the Leader of the Council . At the same time, Cabinet delegated authority to negotiate an option to deliver the site via Slough Urban Renewal (“SUR”).
- 1.4 The purpose of this report is to confirm that SBC has completed the acquisition of the freehold interest of land owned by UWL. It will also provide an update on the status of negotiations with SUR, which will determine if SUR is to be granted an Option for the site.

2 Recommendation(s)/Proposed Action

The Cabinet is requested to resolve:

- (a) That it be noted that the Council entered into a contract for the purchase of the site from UWL on 30 March 2017 for the purchase sum agreed by Cabinet in September 2016 and completed the acquisition on 5 April 2017.
- (b) That authority be delegated to the Interim Chief Executive, following consultation with the Commissioner for Housing and Urban Renewal, to negotiate an option for

the disposal and subsequent development of the site via a special purpose subsidiary of Slough Urban Renewal.

(c) That it be noted that a report on preferred route for the private sector delivery partner will be presented to Cabinet by July 2017.

3. **The Slough Joint Wellbeing Strategy, the JSNA and the Five 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 that 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 apprenticeship opportunities enabling local people to improve their learning and skill 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 security 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:

- **Outcome 1** – Ensuring that the scheme is designed in line with amenity requirements and creates safe, useable and interesting public spaces 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, retail and leisure on the site will help attract and retain businesses whilst directly creating job opportunities for our residents.

4 **Other Implications**

a) Financial

Having approved the report in September 2016 the Council has budgeted for the acquisition in the Capital programme for 2017/18 and the Medium Term Financial Programme. The financial implications are discussed in Confidential Appendix One.

b) Risk Management

Subject to developing the site via SUR:

Risk	Mitigating action	Opportunities
<p>Legal –</p> <p>The SUR SPV is sued by creditors of the joint venture</p> <p>Action is brought against the SUR SPV in regards to state aid.</p>	<p>There are clear firewalls between the Council, SUR and its subsidiaries.</p> <p>SBC has sought professional advice in regards to what lending rate needs to be paid by the SUR SPV on the loan to secure the land (as opposed to development finance).</p>	<p>SUR is already compliant with EU and UK regulations.</p>
<p>Property – House prices could fall, resulting in anticipated sales values being unachievable.</p>	<p>Morgan Sindall Group PLC are a commercial partner and will ensure all development realised is financially viable and synced to market cycles.</p>	<p>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 HRA.</p>
<p>Human Rights</p>	<p>No risks identified</p>	
<p>Health and Safety – workers are harm or killed during the course of construction or local residents are harmed accessing the site.</p>	<p>Morgan Sindall Group plc is a national regeneration and construction company with established Health and Safety procedures</p>	
<p>Employment Issues – 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.</p>	<p>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</p>	<p>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 skills training and job creation.</p>
<p>Equalities Issues</p>	<p>No risks identified</p>	
<p>Community Support</p>	<p>No risks identified</p>	
<p>Communications</p>	<p>No risks identified</p>	<p>The development of this long awaited place making development 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.</p>
<p>Community Safety – local residents/ workers harmed during construction.</p>	<p>Morgan Sindall Group plc is part of the Considerate Constructor Scheme (CCS).</p>	

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 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.
Finance – 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.
Finance – Higher than anticipated construction costs	The option to SUR anticipated a minimum land value and SUR (MSIL/SBC) would lose profit if costs are not well managed.	
Timetable for Delivery – schemes are delayed unnecessarily	Development risk is managed by SUR through the DM team, Construction delay is mitigated through main contracts and supply chain.	All parties are financially incentivised to deliver regeneration and redevelopment to the agreed programme. Using the existing legally established subsidiary company will ensure expediency in delivery.
Governance – Poor performance	SUR 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	SUR is already developing sites successfully and will be incentivised to perform since the vehicle will be paying SBC interest on the land	Increasing the number of projects and the resource within SUR will improve its long term viability and success of delivering the Council's regenerations goals.
Planning – the acquisition scheme does not achieve planning consent.	The scheme incorporates circa 30% affordable housing in line with the site allocation but the tenure may no longer be Social Rent and is subject to viability. The scheme is conservative in terms of height and is comparable to the outline consent.	An enhanced scheme with increased density/height could create more development [homes] and development profit. Starter Homes rather than Social Rent accommodation may make the financial viability of this high quality statement scheme more viable.
Oversupply of new housing in Town Centre – the proposed redevelopment of the Observatory and Queensmere shopping Centres would come in conjunction with the NWQ and could lead to an over-supply.	Current and future levels of anticipated housing need and high proportions of Private Rented Sector (PRS) units make this is unlikely. SUR will phase the provision of all housing types and ensure that the private units are released for sale to maximise value	This may result in a substantial redevelopment programme that will introduce a higher quality 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

Under Section 120 of the Local Government Act 1972 the Council has power to acquire by agreement any land either for the purposes of any of their functions under that Act or under any other enactment or for the benefit, improvement or development of their area. Accordingly, provided that the Council consider that the acquisition of UWL's freehold interest in NWQ is for the benefit, improvement or development of their area then the Council have power under this section to acquire such interest.

The Council also has the power to enter into an option for disposal of the land, and subsequently to complete such disposal, pursuant to section 123 of the Local Government Act 1972 provided that such disposal is for the best consideration that can reasonably be obtained for the land.

The proposed lending to SUR SPV of the funds for the acquisition could potentially constitute prohibited State Aid under Article 107 of the Treaty on the Functioning of the European Union which will continue to apply until such time as the United Kingdom formally leaves the European Union. However, provided that the proposed lending is not on terms which are more favourable to the SUR SPV than it could obtain on the open market then there is no distortion of competition and consequently the proposed loan would not constitute illegal State Aid.

The proposed borrowing by the Council for the purposes of the envisaged loan to the SUR SPV will be subject to the provisions of the Local Government Act 2003. Under Section 1 of that Act the Council may borrow either for "any purpose relevant to the Authority's functions under any enactment" or for "the purposes of the prudent management of its financial affairs". Also the Council must ensure that it complies with its affordable borrowing limit under Section 3 of the Local Government Act 2003. The Council will need to ensure that these provisions are complied with in connection with any proposed borrowing.

The proposed development of the NWQ site could amount to "the realisation, by whatever means, of a work corresponding to the requirements specified by the contracting authority exercising a decisive influence on the type or design of the work" such as to constitute a "public works contract" within the Public Contracts Regulations 2015 and hence be subject to competitive procurement. The Council's external Solicitors have advised, however, that the site was included within the OJEU Notice published in connection with the Council's procurement of its LABV Partner and so it is likely that the requirements have been satisfied to enable the development to be carried out using the SUR SPV. This is subject to the provision that the financial estimates stated in the OJEU Notice are not breached.

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 site (“TVU”) (hatched blue in Image 1 below) is located immediately beside land owned by the Council on the axis of Wellington Street/Stoke Road (shown red in Image 1 below). The combination of these sites is known as the North West Quadrant within the Heart of Slough Strategy.

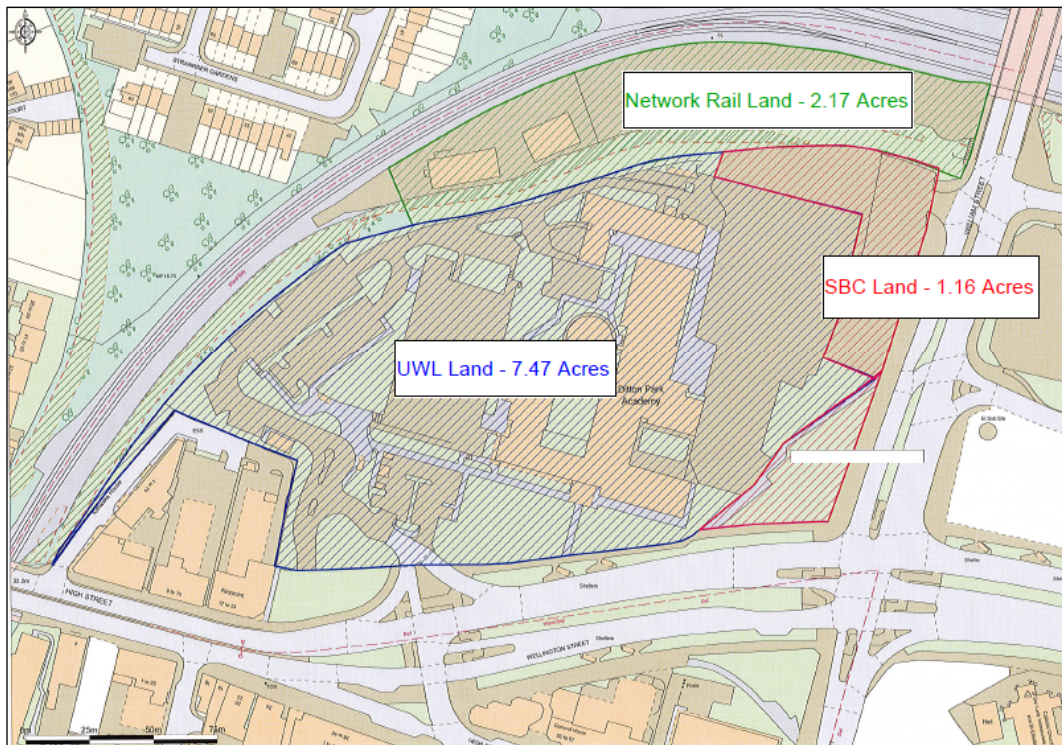


Image One: UWL Land (Blue), SBC Land (Red), Network Rail Land (Green)

- 5.2 Located immediately adjacent to the town centre and Old Library Site and within easy walking distance to both the train station and bus station, the TVU site is the most significant development site within the scope of the Heart of Slough masterplan and arguably within the Borough.

Proposal

- 5.3 SUR was requested to undertake a masterplanning exercise in June 2016 to establish the development potential of the site to support the acquisition process. Due to the scale and complexity of the site, Morgan Sindall Investments Limited (“MSIL”) has utilised its group structure to draw on the expertise of Muse (a sister company within the Morgan Sindall Group) to deliver proposals for a place shaping mixed-use development. Muse has experience of a broad portfolio of circa 40 strategic regeneration projects with a gross development value in excess of £4bn. They consequently have significant expertise and a track record of developing high value complex schemes in partnership with local and public authorities.
- 5.4 Based on feedback from Council officers across departments, SUR commissioned architects and developed an indicative proposal that included 1,089 apartments, 40,000 square feet of retail/leisure space and 270,000 square feet of Grade A office space.

5.5 In the period from October 2016 to present, SUR has considered several options and has continued to refine its proposals. The revised scheme can be summarised as follows:

Element	Quantum	Comment
Residential	1443 units	This is currently based on circa 30% affordable housing and a mix of (Private Rented Sector) PRS and private for sale. Sensitivity analysis will be undertaken to incorporate the likely introduction of starter Homes (properties sold at 80% of market value). To ensure viability, the working assumption is that affordable rents will be 80% of market value. High quality PRS will add to the tenure mix and the value of the scheme. SUR and/or SBC will seek to attract an investor to acquire and manage the PRS. As an alternative, SBC is developing proposals for a wholly-owned Subsidiary Housing Companies. Either one or both of these companies could acquire a proportion of the completed PRS properties.
Retail & Leisure	45,000 sq. ft.	With the introduction of up to 1,500 new homes, the North West Quadrant will create significant demand for ancillary retail use to support this community. The proposal included a new leisure anchor with restaurants, a convenience retail store, and a nursery. The choice of leisure anchor is yet to be determined and will need to be balanced with and be complementary to, the existing town centre and new premises being developed via the Leisure Strategy. With the potential for an evening/night time economy, SUR believe there will be demand to occupy these premises. SUR would take responsibility for marketing this space and securing suitable tenants and investors. SBC would have an option to acquire as an investment asset.
Office	250,000 sq.ft.	<p>SUR anticipates a series of major lease events in Slough within the next 2 years, with a number of large businesses that would potentially seek to relocate to the town Centre. SUR would take responsibility for marketing this space and securing tenants and investors. SBC would have the option to acquire as an investment asset. The potential exits for SBC to acquire the freehold of part of this space should it choose to relocate Council office accommodation and consolidate on this site.</p> <p>Informal expressions of interest have been received via UKTI from institutional investors who would acquire part of the site to build, own and manage the office-led investment.</p>

Site Delivery

- 5.6 The report to Cabinet on 5 September 2016 delegated authority to the Strategic Director Regeneration, Housing & Resources to negotiate an option with SUR. Should an option be granted, the redevelopment of the North West Quadrant would re-set the programme by substantially increasing the pipeline of work. Against this background, Officers have been negotiating refinements to the structure of the Partnership Agreement (in relation to this site) that provide increased control and reduce risk for the Council.
- 5.7 Negotiations have been ongoing with SUR since October 2016. Whilst these have not reached a conclusion, they have demonstrated that SUR understands the Council's requirement to:
- Introduce a mixed-use scheme that complements existing and planned developments in the town centre and creates a statement of quality,
 - Maximise the Social Return on Investment associated with this site, and
 - Manage risk.
- 5.8 Whilst material progress has been made, negotiations with SUR were suspended to allow the Council to focus on acquiring the site. Negotiations will recommence in May 2017 and will focus on an updated Site Development Plan (prepared by SUR), which will set out updated proposals, timescales, costs, revenue, profit distribution and risk profile. The expectation is that officers will be in a position to make a recommendation in time to present an update to Cabinet in by July 2017.
- 5.9 Since the Strategic Director Regeneration, Housing & Resources has now joined the Board of SUR; it is now recommended that the decision to determine if the Council should grant an Option to SUR is delegated to the Interim Chief Executive, acting in consultation with the Commissioner for Housing and Urban Renewal.

6 Comments of Other Committees

- 6.1 None

7. Conclusions

- 7.1 The redevelopment of the North West Quadrant will deliver one of the most important regeneration schemes in the town and region. The acquisition and redevelopment of this landmark site provides an opportunity to transform the perception of the town. It will set a new standard for quality, create jobs, create 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 Whilst a conclusion has not been reached on the delivery vehicle, SUR has provided expert assistance to develop the acquisition business case and is committed to working with SBC to realise the Councils objective of creating a mixed-use scheme that represents a statement of quality and confidence in the town centre. A decision on whether SUR will be granted an option will be taken by July 2017.

8 Appendices

Appendix One – Financial Comments (Part II – contains exempt information)