SLOUGH BOROUGH COUNCIL

REPORT TO:	Cabinet	**DATE:**	19th June 2017
CONTACT OFFICER:	David Martin, Principal Asset Manager		
(For all enquiries)	(01753) 875208		
WARD(S):	All.		
PORTFOLIO:	Urban Renewal Leader of Council		- Cllr Ajaib - Cllr Munawar

PART I
NON-KEY DECISION

SMALL SITES STRATEGY UPDATE – ADDITIONAL GENERAL FUND SITES

1 Purpose of Report

1.1 In September 2015 Cabinet approved the principle of delivering, through Slough Urban Renewal (SUR), a range of small sites owned within Slough Borough Council's (SBC) General Fund and the Housing Revenue Account (HRA) for private and affordable housing respectively. A progress update was reported to Cabinet in March 2016 and since then works have commenced on the pilot scheme (Eschele Court) and the first phase of small sites project (Bryant Avenue, Mansel Close, The Frithe and The Cherries).

1.2 The purpose of this report is to approve the development of a number of additional General Fund sites for private housing led schemes.

2 Recommendation(s)/Proposed Action

The Cabinet is requested to resolve:

(a) That it be agreed that Council officers should proceed on the basis that the General Fund sites listed in Appendix One and Two will be disposed to and developed by SUR for private housing led schemes, subject to Cabinet approval for a transfer sum that represents no less than the best value land valuation.

(b) That Subject to (a) above, notices will be published in relation to the disposal of Public Open Space at Norway Drive and Mercian Recreation Grounds with the results presented to Cabinet prior to any option being granted over these sites.

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 being constructed will create local employment opportunities whilst increasing apprenticeship opportunities, enabling local people to improve their learning and skill base. Delivering new homes will improve the quality of the built environment and the image of the town whilst providing much needed housing accommodation. The schemes are to be 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 SUR to deliver these commercially led sites is addressing the five year plan outcomes through:

- **Outcome 1** – Ensuring that the schemes are designed in line with amenity requirements will contribute towards our children and young people having the best start in life,
- **Outcome 2** – High quality new homes will attract residents who are more likely to take responsibility for their own health, care and support needs,
- **Outcome 3** – New well designed homes will contribute towards ensuring Slough is an attractive place where people choose to live, work and visit; and
- **Outcome 4** – The delivery of new private homes will directly contribute towards our residents having access to good quality homes.

4 **Other Implications**

a) Financial

SUR is a Limited Liability Partnership owned by SBC and Morgan Sindall Investments Ltd ("MSIL"). Part of its objectives is to make a commercial return for the partners. To secure best value on some of the smaller sites, SUR has appointed small local building firms, outside of the Morgan Sindall Group, to ensure the build price secured by the partnership and the Council is competitive.

Over the currently envisaged Additional Small Sites General Fund Programme it is anticipated that the Council will receive circa £3.4m in land receipts in addition to a £1.1m share in the development profits (see confidential Appendix 1).

The sites considered in Appendix 1 are all General Fund properties with development potential that have been identified and put forward for consideration as residential in the new local plan. Subject to their reception by the Local Planning Authority they will be added to the small sites development programme.

The sites detailed in Appendix 1 will create additional Council Tax income in the region of £66k per annum, there is also likely to be additional revenues, for at least 4 years, under the central government New Homes Bonus scheme, first introduced in 2010. However, as the government has recently reduced the amount of funding available to local authorities via this scheme, to pay for social care specific grants, officers are unable to accurately assess future NHB receipts for the Council and therefore do not include them in assessments of financial viability.

The delivery cost of the homes is covered by development sale receipts.

On private general fund sites the land value represents the Council's equity investment into SUR. 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 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 remain 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

Risk	Mitigating action	Opportunities
Legal – SUR is sued by creditors of the joint venture	There are clear firewalls between the Council and the SUR	The SUR is already compliant with EU and UK regulations.
Property – House prices could fall, resulting in anticipated sales values being unachievable.	MSIL are a commercial partner and will ensure all development realised is financially viable and synced to market cycles.	
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. Any external main or sub contractors need to comply with the partnership's Heath and Safety policy.	
Employment Issues	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.
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 SUR to highlight how the JV is helping the Council deliver a range of sites throughout Slough.
Community Safely – local residents/ workers harmed during construction.	Morgan Sindall is part of the Considerate Constructor Scheme (CCS).	Utilising the Considerate Constructor Scheme will reassure residents that the construction works are being built in accordance with best practice.
Finance - The transfer land value is not market value	External consultants will be appointed to confirm that the market land value of each site.	If land values increase during the promotion period this will be reflected in the land value.

Risk	Mitigating action	Opportunities
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 SUR are at LIBOR + 6.5% generating significantly higher rates of return for a relatively modest risk. These returns are separate and in addition to SBC's land receipt and share in development profits.
Finance – One of the developments does not generate a profit or makes a loss	External consultants at transfer will review costs and revenue to ensure that the project is viable and will deliver a profit.	All risk associated with profit is shared with MSIL.
Finance – Higher than anticipated construction costs	The land price is fixed at transfer and both the SUR (MSIL/ SBC) would lose profit if costs are not well managed.	
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	SUR have employed additional management staff to cover the new work streams.	The ever increasing development programme helps secure a skilled workforce focussed on the regeneration of Slough.
Governance – Poor performance	The 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	The SUR 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 SUR will improve its long term viability and success.

c) Human Rights Act and Other Legal Implications

The developments are within the scope envisaged during the establishment of SUR which was procured through a process compliant with EU and UK Regulations.

With regard to General Funds property, 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. Independent valuations will confirm that best value has been achieved on each site.

With regard to HRA property, Local authorities cannot generally dispose of such property without the consent of the Secretary of State unless the disposal within the terms of a General Consent issued by the Secretary of State. Under The General Housing Consents 2013 Local authorities can dispose of land for market value but not to a party in the which the local authority owns an interest unless either it does not have an HRA account or unless the disposals are the first five disposals in any financial year.

Under the General Consents 2013 Local Authorities can also dispose of vacant land. Vacant land for these purposes means any land upon which dwelling houses have not been built or where been built they have either been demolished or are no longer capable of human habitation and are due to be demolished.

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

There are no equalities issues associated with this report.

e) Property Issues

The option agreements set 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.

5. <u>Supporting Information</u>

5.1 The Council entered into a Limited Liability Partnership with Morgan Sindall Investment Limited and formed SUR (formerly called Slough Regeneration Partnership) 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.

5.2 The role of SUR 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 through the joint venture route compared to a straightforward land disposal. In addition to receiving the full market value for its land the Council (because it is a 50% partner in SUR) will also receive up to 50% of the residual profit upon completion of developments.

5.3 Morgan Sindall Investments Limited ("MSIL") will fund the costs incurred in regards to progressing the schemes, including planning applications and detailed design. These Advance Sums represent MSIL's initial investment in SUR and are essentially a loan from MSIL to the SUR. The final land value represents the Council's investment in SUR in a similar way as MSIL's Advance Sums. Under the terms of the LLP Members Agreement, MSIL are obligated to provide further sums, so that the sums loaned by MSIL to SUR matches the final site value. Both these loans (the final land value loan note and Morgan Sindall's loan to SUR) will be repaid by SUR at the end of the development. Any surplus will then be distributed to the Council and MSIL at the discretion of the SUR Board.

5.5 SBC sites will be transferred to SUR at best value once a planning consent and a competitively tendered build price are secured with the final valuation sum to be agreed by Cabinet.

5.6 Planning consent on sites with more than 14 units with be subject to affordable housing requirements. The figures in Appendix 1 currently assume that for Wexham Phase 3 (proposed as 24 units) circa £600k is paid in financial contributions towards the provision of affordable housing off site. This income to the HRA can than be used towards the delivery of affordable housing on HRA land.

5.7 If the planning negotiations require the affordable provision to be on site at Wexham Phase 3 the units could form rented accommodation or could be targeted at key workers. The final land value will be calculated based on the approved detail planning scheme, tenure mix, build costs and sales values at the time of financial close/ transfer.

5.8 The benefits to SBC of utilising SUR are:

- SUR is the developer therefore the risks are shared with MSIL.
- The Private Sector Partner (PSP), in this case MSIL, invests working capital to match the land value.
- There is an established procurement route that complies with the OJEU procurement and SBC policy,
- SBC receives a market land value plus a share of the development profits.
- Quality control and consistency of product associated with the partnership.

6 Comments of Other Committees

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

7. Conclusion

7.1 SUR has made significant changes to it's resourcing and structure to ensure that it can deliver on a whole spectrum of development sites including smaller schemes. By utilising the development, planning, supply chain and construction management skills of MSIL as the Development Manager, the smaller sites are being promoted commercially within the SUR. This is reducing risk to the Council and keeping internal staffing and revenue costs to a minimum. The Council has joint control over the development process and will receive the independently verified Market Value for any land assets that are transferred in addition to an equal share in development profits.

8 Appendices

Appendix One – Additional Small Sites General Fund Programme (contains exempt information in Part II of the agenda)
Appendix Two – Site Plans for Additional Small General Fund Sites

9 Background Papers

Small Sites Development Strategy Cabinet Report – September 2015
Small Sites Development Strategy Update Cabinet Report – March 2016