

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 21st June 2021

CONTACT OFFICER: Stephen Gibson, Executive Director of Place
01753 - 875852

WARD(S): Central

PORTFOLIO: Councillor Swindlehurst, Cabinet Member for Financial
Governance, Economic Development & Council Plans

PART I
KEY DECISION

HEART OF SLOUGH - OLD LIBRARY SITE FUNDING REPORT

1 Purpose of Report

- 1.1 In October 2019, Cabinet delegated authority to enter into a Facility Agreement and approved the project plans required to progress development works for a 64 unit residential development with ground floor commercial space on part of the Old Library Site. The Facility Agreement included the provision of a loan facility to SUR Old Library (Residential) LLP of up to £10.76m.
- 1.2 This report seeks delegation of authority to senior officers to approve disposals under the Facility Agreement. It also seeks delegated authority to make variations to the terms of the Facility Agreement to enable offsetting of outgoing costs against incoming revenue receipts and to vary loan repayment dates and amounts.

2 Recommendation(s)/Proposed Action

Cabinet delegates authority to the Executive Director of Place, after consultation with the S151 and Monitoring Officers, to:

- (a) grant consent for disposals of individual flats and commercial leases and release of property charges, having first ensured that appropriate market valuations¹ and terms have been secured and that minimum loan to value ratios are maintained as set out in the Facility Agreement;
- (b) amend the SUR Old Library (Residential) Facility Agreement to enable the offsetting of current costs against current revenues; and
- (c) vary the loan repayment amounts and dates to take into account the prevailing sales strategy.

¹ Independent market valuations for all apartment sales and mutually agreed verification of commercial lease terms

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

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

The Old Library Residential development will make a significant contribution to the joint priorities captured within the Slough Wellbeing Strategy 2020-2025:

- PRIORITY 1: constructing the new development has created jobs during the construction phase as well as increasing apprenticeship opportunities enabling local people to start their working life well and improve their learning and skill base,
- PRIORITY 2: delivering curated public spaces and buildings that are accessible to all encourages integration and reduces inequality,
- PRIORITY 4: The operation of new commercial premises within this mixed-use scheme will create quality permanent local employment opportunities within modern purpose built facilities promoting workplace health within the borough.

The changes are set out in this paper will allow for individual flat sales to complete, for disposal proceeds to be provided to the Council promptly, will increase the supply of good quality housing.

3b. **Five Year Plan Outcomes**

The development is delivering the following of the Five-Year Plan outcomes:

- OUTCOME 3: The delivery of this regeneration scheme, at the western end of the High St, will contribute to Slough being the premier location in the south east for businesses of all sizes to locate, start, grow, and stay,
- OUTCOME 4: Increasing the supply of good quality new homes will contribute towards our residents living in good quality homes; and
- OUTCOME 5: Providing centrally based residential homes and ground floor commercial space will increase demand, footfall and activity in the town centre, thus contributing to the centre of Slough being vibrant, providing business, living, and cultural opportunities.

The development has delivered good quality new homes in a central location and the recommendation is the last stage in this project, allowing for individual flat sales to complete and revenue from sales to be realised.

4 **Other Implications**

a) **Financial**

Disposal receipts

The delegated authority will enable the Council to approve disposals and receive disposal receipts in line with the Facility Agreement. These will be received net of associated sales costs for additional costs such as legal fees and agents fees. In opting to receive disposal proceeds net of fees, the Council will see a reduction in the number of transactions processed. Transparency of all costs and fees is maintained via the receipt of a completion statement for each disposal. All transactions are conducted via the Council's legal representatives and the buyers' lawyers. As per the latest independent valuation report the apartments have a valuation of at least £16.7m.

All apartment sales are required to be supported by an independent valuation to demonstrate fair market value and reduce the risk of poor sales values.

Loan repayments

The Facility Agreement states that the loan repayments should commence one month after the practical completion date and for loan plus interest charges to be fully repaid within 12 months of practice completion.

This was predicated on the Council purchasing all units however this disposal strategy was revised in December 2020 and the apartments went on open market sale in quarter one of 2021. As a result, SUR's anticipated sales and resultant cash flows have been revised which will now result in a delay to apartment sales and associated sales receipts. This will impact upon SUR OLS's ability to make its early loan repayments.

Loan repayments were due to start in March 2021 (£735k) and they are now expected to start in June. The loan is still expected to be fully repaid within the terms of the original agreement. i.e within 12 months of the first repayment.

The first two sales have completed in May 2021 and a further tranche of sales are nearing completion in June, with a healthy pipeline of enquiries. This supports SUR's cashflow modelling and indicates that repayments can start in June although uncertainty will continue to remain over the timing of future loan repayments until sale are completed. The Help to Buy scheme is a positive factor.

Based upon latest SUR projections, repayments in the first three months were expected to be £2.45m and are now expected to be £3m, albeit payments are deferred by three months. In line with a commercial lender, interest will continue to be charged for the duration of the Facility Agreement. "Holidays periods" on payments are considered to be permissible, especially in the current market.

Financial security

The Council continues to have a charge over all properties. Charges can only be released by the Council based upon the development maintaining a minimum loan to value ratio to provide security against its loan facility to SUR. This is significantly in advance of the minimum threshold as set out in the Facility Agreement.

Developers' profit

SBC is entitled a 50% share in any developers' profit. This has decreased over the life of the scheme in direct response to changes in the market. Current projections continue to forecast a small developers' profit however this is currently being reviewed and updated to reflect recent apartments sales and imminent commercial sales. This will include a review of sales strategy (rates and values) to establish a mutually agreed approach. Although some profit continues to be expected from this scheme, this remains subject to revision.

b) Risk Management

In the previous cabinet report, there was no specific delegation to allow an officer to grant consents to dispose of individual flats and agree to commercial rental terms.

The process for this is set out in the Facility Agreement and requires SUR to provide evidence of market valuation, demonstrating that units have been sold for fair market value and that the remaining assets provide adequate security for the outstanding loan (base upon the 120% ratio as set out in the Facility Agreement).

Under delegated authority to take operational decisions, the s.151 officer has given consent to dispose of the first tranche of flats where completion was required urgently. Independent valuations have been provided by Savills in compliance with the Facility Agreement to demonstrate that sales values achieved are at fair market value. Based upon the independent market valuation, the loan to value ratio remains above the minimum requirement.

Recommendation from section 2 above	Risks/Threats/ Opportunities	Current Controls	Using the Risk Management Matrix Score the risk	Future Controls
a) grant disposals approvals and release of charges on behalf of Slough Borough Council, as Lender, as required under the Old Library Residential Facility Agreement	Enables the disposal process to move forward cost effectively and money to be returned to SBC	There is currently no delegated authority for approvals meaning units cannot complete without either Cabinet or s.151 officer approval	4	Finance review requested approvals before seeking authority from the ED of Place
b) amend the SUR Old Library Residential Facility Agreement to enable the offsetting of current costs against current revenues	Enables SUR to offset current cost against current revenue preventing the need for further loans	Offsetting is currently prohibited	4	SBC still receive interest of PWLB plus an on cost of 2.5% but overall borrowing reduces and is more efficient for the project. Approval required for all net disposal proceeds
c) enable loan repayments terms to be varied	Enables the Council to act as a reasonable lender in response to	Fixed in the Facility Agreement	4	Approval can only be granted by the s151 based upon a credible case for change

Recommendation from section 2 above	Risks/Threats/ Opportunities	Current Controls	Using the Risk Management Matrix Score the risk	Future Controls
	market conditions whilst seeking to accelerate repayments were possible			

c) Human Rights Act and Other Legal Implications

The apartments are on open market sales and are not restricted in sale. No human rights implications have been identified as a result of decisions in this paper.

The Facility Agreement sets out the requirements for authorisation and execution of the sales of apartments. The contractual obligations under the terms of the agreement have complied with, unless otherwise stated within this report. This includes arrangements for the release of property charges.

d) Equalities Impact Assessment

The project has delivered good quality housing in a central location, providing much needed housing in the town centre. The properties have been marketed under the Home to Buy scheme, which allows some first-time buyers to acquire an equity loan to purchase a new build property. This scheme allows individuals and households who may otherwise struggle to borrow sufficient equity to purchase a property an opportunity to buy their first home.

No further equality issues associated with this report.

e) Property Issues

See Section 5 below.

5. **Supporting Information**

Site Description

- 5.1 The site is the southern half of the old Slough Library and is in a prominent town centre location on the junction of William St and the High Street.
- 5.2 The former library building and foundations were removed in 2017 following the opening of The Curve and the site has been developed into a 64 dwelling apartment block with retail at ground floor (see Appendix 2) abutting and adjacent to a dual branded Marriott hotel, 152 room Moxy (Lifestyle) and 92 room Residents Inn (extended stay).

Background

- 5.3 The wider Slough Library site was identified within the Heart of Slough Strategy and was granted outline consent for a 120 bed hotel along with 91 residential units and retail/leisure use in 2009.
- 5.4 The Council entered into a Limited Liability Partnership with Morgan Sindall Investment Limited and formed Slough Urban Renewal (formerly 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.

- 5.5 The Old Library site is one of the original option sites named in the 2013 Local Asset Backed Vehicle (LABV) Agreement.
- 5.6 In March 2015 Cabinet approved the acquisition of the Slough Library site back from the Homes and Communities Agency (as the successor to English Partnerships) under the Put and Call Agreement between Slough Borough Council (SBC) and The Urban Regeneration Agency (known as English Partnerships) dated 30th March 2007.
- 5.7 SBC is the developer and investor on the hotel element. SUR is the developer in respect of the residential block which is a standard commercial development project.
- 5.8 Planning was granted on the 29th November 2018 (ref: P/17238/000), the suite of agreements considered in the December 2018 Cabinet Report signed on the 4th June 2019 and construction works commenced earlier in the year under a Pre Contract Service Agreement (PCSA).
- 5.9 The loan facility was considered by Cabinet in October 2019 completed on the 5th December 2019 and is being utilised to fund the delivery of the residential element of the scheme. To date £9.34m has been drawn down against this facility.

Scheme Summary

- 5.10 The Old Library Residential LLP element of the wider redevelopment scheme comprises two retail units totalling c.4,000 sq.ft. and the following mix of residential units:

Schedule of Accommodation		
Unit Type	Market Sale	Total
Studios	12	10
1 Bed Apartments	28	14
2 Bed Apartments	24	24
Total	64	64

Slough Urban Renewal

- 5.11 The role of SUR is to offer a long-term approach to regeneration. Through the joint venture, the Council receives market value from the disposal of assets, with the benefit of planning and (because it is a 50% partner in SUR) receives 50% of any developer profit made upon completion of the development.
- 5.12 The commercial speculative development element of the Old Library Scheme comprises both residential and commercial space. The development receipts from the disposal of this space is then used to pay down all loans. If the receipts more than cover the loans the surplus (development profit) is shared.

The Loan Mechanism

- 5.13 This is the first time the Council has provided a loan facility for speculative commercial development. To enable the Council to act as an effective and efficient lender authority over operational level approvals (relating to the verification of valuation information, approval to disposals and the releasing of charges) needs to be delegate to an appropriate senior officer who can respond to the disposal of each of the units as they arise.

6 Comments of Other Committees

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

7. **Conclusion**

Should SBC not be able to approve disposals or release charges in a cost or time effective manner, this places the commercial viability and success of the project at risk. Delegating authority to an appropriate senior officer will enable SBC to respond effectively to each of the individual disposals as they arise.

The disposals strategy has changed since the start of this development which has resulted in a delay to open market sales than would otherwise be expected for a development of this type. Delegating authority to vary early loan repayment terms to an appropriate officer will enable the Council to work with its partner to accelerate repayments were possible whilst responding to current market conditions.

8 **Appendices**

None

9 **Background Papers**

Cabinet Report – Heart of Slough Old Library Residential Funding – October 2019

Cabinet Report – Capital Strategy 2019/24 – February 2019

Cabinet Report – Redevelopment of Old Library Site – December 2018

Cabinet Report – Redevelopment of Old Library Site – June 2017