

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 16 September 2019

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WARD(S): Central

PORTFOLIO: Leader of Council and Cabinet Member for Regeneration and Strategy - Cllr Swindlehurst

PART I NON KEY DECISION

HEART OF SLOUGH - NORTH WEST QUADRANT UPDATE

1 Purpose of Report

- 1.1 Slough Borough Council ("SBC" or "the Council") completed the acquisition of the freehold interest in land owned by the University of West London to assemble the site referred to as the North West Quadrant ("NWQ") in April 2017. The redevelopment of this area will create a mixed-use scheme that will be locally and regionally significant and will be one of the most ambitious and substantial local authority-led regeneration projects in the UK.
- 1.2 In January 2018, Cabinet agreed to the granting of an option to Slough Urban Renewal ("SUR") to redevelop the NWQ with a view to the subsequent disposal and development of the site via a special purpose vehicle subsidiary of SUR.
- 1.3 The purpose of this report is to reaffirm this decision and advise that the NWQ project will now proceed as part of a much broader town centre regeneration strategy that will be aligned to the emerging Transport Vision, the developing Cultural Strategy and the redevelopment of the town centre.

2 Recommendation(s)/Proposed Action

The Cabinet is requested to resolve that:

- (a) Significant progress has been made in relation to the delivery of the NWQ and that SUR will present an updated masterplan for approval by March 2020.
- (b) Following a series of positive meetings, the Council has negotiated enhanced commercial terms with SUR for this site, as follows:
 - i. Construction Exclusivity – commercially it is advantageous to the Council to have SUR seek Value for Money through the broadest

range of construction entities particularly with the expertise of high rise residential development and therefore SUR will not require any exclusivity to Morgan Sindall companies;

- ii. Muse expertise and dedicated resources – SUR will appoint their in-house company Muse, who specialise in major regeneration projects similar to the NWQ and they will increase their resources to provide dedicated expertise and leadership of the project;
- iii. Governance – in order to create a bespoke decision making structure, it is appropriate that there is a separation between the day-to-day SUR projects and decision making from the NWQ project. It has been agreed that there will be a dedicated ‘TVU Project Board’, which will be resourced equally from Muse and the Council and directly accountable to the Chief Executive of the Council and the Chief Executive of Morgan Sindall.
- iv. Council Objectives - There are a number of strategically important requirements that the Council have made mandatory to delivering an integrated high quality inclusive development. These include the inclusion of the Network Rail land, adoption of a flexible scheme to accommodate the MRT route and the compliance of affordable housing. SUR have agreed to accommodate all of these objectives;

(c) The proposals for the NWQ will form part of a wider Framework Masterplan for the centre of Slough that will include the redevelopment of the town centre and incorporate the emerging Transport Vision and Cultural Strategy to facilitate and maximise wider social and regenerative benefits for Slough.

(d) As part of negotiations with SUR to refresh the governance arrangements, SUR has agreed to unconditionally release the option for the site at Weekes Drive, which is the catalyst for SBC to bring forward a circa 110 unit affordable housing project.

3. **The Slough Joint Wellbeing Strategy, the Joint Strategic Needs Assessment, and the 5-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 which 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 opportunities for apprenticeships, enabling local people to improve their learning and skills 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 on-site management 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 the following:

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

4 **Other Implications**

a) Financial

SUR is a Limited Liability Partnership owned by SBC and Morgan Sindall Investments Limited (“MSIL”). Generating a commercial return for the partners is part of SUR's objectives.

The current working assumption is that the Council will receive a minimum land value which covers all acquisition costs (land payments, stamp duty land tax, acquisition legals etc., demolition costs and net finance holding costs (minimum land value is indexed by 3% per annum from the point of acquisition, less any eligible meanwhile income, until drawn down) in addition, the Council has an option to share in the development profits. The delivery cost of the homes is covered by development sale receipts. Moving forward and taking account of the Council's wider objectives of delivering the Transport Vision and/or increased levels of affordable housing, this assumption could be reviewed.

b) Risk Management

Subject to developing the site via SUR:

| Risk | Mitigating action | Opportunities |
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| <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>SBC is unable to attain</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>SBC shall ensure as far as</p> | <p>SUR is already compliant with EU and UK regulations.</p> |

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| vacant possession of the TVU site. | possible that all existing tenants are in occupation under leases contracted-out of the Landlord and Tenant Act 1954, with a term/break rights to reflect the proposed timetable. | |
| Property – House prices could fall, resulting in anticipated sales values being unachievable. | Morgan Sindall Group plc are a commercial partner and will ensure all development realised is financially viable and synced to market cycles. | 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 Council's Housing Revenue Account. |
| Human Rights | No risks identified. | |
| Health and Safety – workers are harmed or killed during the course of construction, or local residents are harmed accessing the site. | Morgan Sindall Group plc is a national regeneration and construction company with established Health and Safety procedures. | |
| Risk | Mitigating action | Opportunities |
| 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". | 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. | SUR is implementing a local economic benefit programme (SME's, training, apprenticeships etc.) so that the more activity SUR does, the greater the potential benefit in relation to skills training and job creation. |
| Equalities Issues | No risks identified. | |
| Community Support | No risks identified. | |
| Communications | No risks identified. | The development of this long-awaited placemaking development is a positive story that makes the best use of Council assets. The potential exists to promote SUR to highlight how the Joint Venture is helping the Council deliver a range of sites throughout Slough. |
| Community Safety – local residents/workers harmed during construction. | Morgan Sindall Group plc is part of the Considerate Constructors Scheme (CCS). | |
| 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 |

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| | | 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 will include 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 Development Management team, Construction delay is mitigated through main contracts and supply chain. The Option Agreement contains key milestones for delivery. | All parties are financially incentivised to deliver regeneration and redevelopment to the agreed programme. Using the existing legally-established subsidiary company will ensure expedience in delivery. |
| Risk | Mitigating action | Opportunities |
| Governance – Poor performance. | SUR has an established board of directors that are already competently directing the company's business. An NWQ project steering group will be established. This group, which will include up to 3 SBC representatives, will meet on a monthly basis to make sure SBC exerts more influence over the project lifecycle. | 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. The Option Agreement contains key milestones and "key person" mechanisms to deal with performance and the provision of development managers with relevant expertise. | Increasing the number of projects and the resource within SUR will improve its long-term viability and success of delivering the Council's regeneration goals. |
| SBC Capacity – SBC Officers unable to operate within commercial timescales. | The recent introduction of the Regeneration Directorate will bring together suitably-experienced staff to | |

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| | manage this project without adversely affecting other projects or business as usual. | |
| <p>Planning & Transport – the acquisition scheme does not achieve planning consent.</p> <p>The current scheme does not adequately secure options for access and egress from the site to avoid impacts on the Heart of Slough junction.</p> | <p>The Council and SUR will use reasonable endeavours to achieve the objective for development of each Phase to adhere to planning policy from time to time, so far as such planning policy applies to delivery of Affordable Housing on the NWQ Site.</p> <p>Transport and Highway service to assist SUR in considering options.</p> | <p>An enhanced scheme with increased density/height could create more homes.</p> <p>Traffic modelling and traffic flow is critical to the success of the town centre.</p> |
| <p>Oversupply of new housing in Town Centre – the proposed redevelopment of the Observatory and Queensmere shopping Centres and Aberdeen Hexagon would come in conjunction with the NWQ and could lead to an oversupply.</p> | <p>Current and future levels of anticipated housing need, and high proportions of Private Rented Sector (PRS) units, make this unlikely. SUR will phase the provision of all housing types and ensure that the private units are released for sale in accordance with market requirements.</p> | <p>This may result in a substantial redevelopment programme that will introduce a higher quality central retail and restaurant offering, which should be positive for the town centre, Slough Borough, and the viability of the NWQ scheme.</p> |

c) Human Rights Act and Other Legal Implications

SUR is a Limited Liability Partnership owned by SBC and Morgan Sindall Investments Limited (“MSIL”). Part of SUR’s objectives is to generate a commercial return for the partners.

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 completion and subsequent sale of the development (or of individual phases) . 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 on whether there are sufficient funds available from the eventual sale of the completed development.

With a project as large and complex as the NWQ, there is a possibility that some phases or elements of the development will be forward-funded by third parties, in which case those parties might pay land value to the Council at an earlier stage than sale of the completed development, mitigating the above Council development and sale risk, although this depends on the nature and terms of such forward-funded deals which may be achievable with such third parties.

d) Equalities Impact Assessment

There are no equalities issues associated with this report.

e) Property Issues

See section 5 below.

5. **Supporting Information**

- 5.1 The Former Thames Valley University (“TVU”) Campus and the car park owned by the Council on the axis of Wellington Street/Stoke Road are known collectively as the North West Quadrant (“NWQ”) within the Heart of Slough Strategy. The site was acquired in April 2017, following a period of concentrated assistance from SUR.
- 5.2 The NWQ presents a unique opportunity for Slough and is an example of the drive, ambition, innovation and creativity within SBC. This site will be an exemplar example of Place Shaping and will be a fundamental component of the future town centre. In addition to providing over 1,000 new apartments, it will provide circa 250,000 square feet of Grade A office space and 40,000 square feet of retail/leisure space. The expectation is that it will be the catalyst for the delivery of the Transport Vision, create over 2,000 jobs and provide a range of leisure/cultural uses. It therefore creates the opportunity to roll-out a range of social, financial and economic development based outputs and outcomes that are closely tied to the 5 Year Plan.
- 5.3 Following approval by Cabinet, the Council entered into negotiations to grant an option and develop the site via SUR. However, due to the size, scale and complexity of this long-term and multi-phased project, officers have negotiated variations to the Partnership Agreement (between SBC and Morgan Sindall Investments Limited – “MSIL”) and the option to be granted for this project. This approach will reduce risk for SBC and ensure greater control throughout the development cycle to realise the Council’s priorities.
- 5.4 The proposal to reaffirm that an option is granted in favour of SUR is supported by the Council’s advisors. When last reported, it was noted that in addition to offering significant long-term value to SBC, they supported on the basis that:
- SBC have significant controls – which will be used;
 - SBC can secure profit shares;
 - SBC have an existing working relationship with SUR;
 - SUR have completed significant due diligence; and
 - SUR has acknowledged the need for additional expert regeneration skills.
- 5.5 Following a series of meetings with Morgan Sindall (the Topco for MSIL) in 2019, the proposed deal structure for has changed. In addition to the above, the most material betterments for SBC are that Morgan Sindall/SUR have agreed that:
- The current construction exclusivity enjoyed via the Partnership Agreement will be relaxed for the NWQ project.
 - The Council’s Transport Vision will be embedded into the design and layout for the NWQ;
 - The scheme proposals will take account of the evolving Framework Masterplan that is being developed between SBC and British Land, which

means that the design, uses and objectives of the NWQ and town centre proposals will genuinely complement each other.

- Improved governance arrangements should be introduced.

- 5.6 On the basis of the above and subject to the financial appraisal, the Council's external Development Advisor has confirmed that the development of the NWQ via SUR and led by Muse, will offer an industry-leading team with expertise of in delivering comparable projects. At the same time, SBC will benefit from the advantageous terms and conditions of the SUR structure (which have been n further improved with the release of construction exclusivity). As the process if based on an open book calculation of land value, this approach ensures that the Council will secure best consideration and have flexibility to decide it's level of involvement (risk, resources, capital) on a phase by phase basis.
- 5.7 The expectation is that SBC will formally grant the option before the end of October 2019. Based on this timescale, an updated masterplan will be submitted for Cabinet for approval by March 2020. Subject to Cabinet approval, SUR will submit the planning application for the NWQ will by early 2021.
- 5.8 As part of the negotiations with Morgan Sindall/SUR, it has been agreed that SUR will unconditionally release the option granted by SBC for land at Weekes Drive. This positive decision by SUR represents their desire to work collaboratively with SBC to accelerate the delivery of affordable housing in Slough since it will allow the Council to promote a Council-led affordable housing scheme.

6 Comments of other Committees

None.

7. Conclusions

- 7.1 This report provides a positive update to Cabinet. Making the special assumption that the legal agreements will be signed on or before November 2019, it advises that Cabinet can expect a report by March 2020 that seeks approval to proceed on the basis of an updated masterplan.
- 7.2 The proposals have evolved since January 2018. The updated masterplan will take account of exciting developments including the proposed MRT scheme and proposals for the town centre.
- 7.3 Most importantly, the proposals will realise the Council's objective of creating a mixed-use scheme which represents a statement of quality and confidence in the town centre.

8 Appendices

- 8.1 None

9 Background Papers

None