

SLOUGH BOROUGH COUNCIL

REPORT TO: Cabinet **DATE:** 16 March 2020
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PORTFOLIO: Leader of Council - Cllr Swindlehurst

PART I **KEY DECISION**

ASSETS UPDATE

1. Purpose of Report

1.1 The purpose of this report is to provide an update to Cabinet on the future use of SMP and Observatory House. This update reflects changes in circumstances from the assumptions made in the report put to Cabinet on 29 May 2018. This report also comments on the impact of these changes on the base business case.

2. Recommendation(s)/Proposed Action

The Cabinet is requested to resolve:

- (a) That it be noted that despite positive and negative variations in actual costs against the business case to move to 25 Windsor Road and the redevelopment of St Martin's Place into affordable housing, the Council is still projecting to make operational savings within three years of purchase as set out in the original business case.
- (b) That it be agreed to revert to the original proposal to remodel St Martin's Place to provide affordable housing.
- (c) That delegate authority be given to the Interim Director of Regeneration to enter into a Pre-Construction Services Agreement with Slough Urban Renewal and approve a budget of £250,000 for SUR to undertake a range of building surveys and preliminary design.
- (d) That SBC should offer the opportunity for the Slough Children's Services Trust to move (mainly) into the 4th floor of Observatory House, with SBC managing the move and covering all reasonable costs.
- (e) That the content of Confidential Appendix One be noted.

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

The delivery of new affordable housing in the St Martin's Place ("SMP") building will reduce temporary housing costs whilst providing an income stream which could contribute to the provision of front line services.

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

Consolidating staff from the Slough Children’s Services Trust (“the Trust”) into SBC’s headquarters in the town centre is in keeping with the original economic development objective of purchasing Observatory House. It will increase footfall and spend per head in and around the High Street, which will contribute to increasing the viability of the retail offer during the transitional period until the town centre is redeveloped.

3b. **Five Year Plan Outcomes**

Relocating the Trust into the town centre and redeveloping St Martins Place as affordable housing will address the Five Year Plan outcomes through the following:

Outcome 1 – Contributing towards a viable and active High Street will help Slough children to grow up happy, healthy and successful;

Outcome 3 – Contributing towards a viable and active High Street will help encourage people to visit, live or work in Slough;

Outcome 4 – The delivery of a mix of affordable homes through the conversion of St Martins Place will directly contribute towards our residents having access to good quality homes; and

Outcome 5 - Contributing towards a viable and active High Street will help attract and retain businesses that provide opportunities for our residents.

4 **Other Implications**

a) Financial - See Confidential Appendix One (contains exempt information)

The £250,000 budget for building surveys and preliminary design will be created within the existing 2020/21 Capital Budget (i.e. from within the North West Quadrant Development) and therefore does not represent any additional pressure on the Council’s Capital Programme nor have any additional revenue implications.

If, following the survey and design work, it is deemed converting St Martin’s Place into Affordable Housing as feasible, a capital bid to fund the conversion will be submitted to inform the 2021/22 Capital Programme.

b) Risk Management

Recommendation from section 2 above	Risks/Threats/ Opportunities	Current Controls	Using the Risk Management Matrix Score the risk	Future Controls
(b) Agree to revert to the original proposal to remodel SMP to provide affordable housing.	Lose the opportunity to create an integrated approach to delivery with the CCG	The CCG is still committed to working collaboratively with SBC to achieve the mutual objectives, which is still possible on an	4	East Berkshire CCG Primary Care Infrastructure Plan 2020/2025

		alternative site,		
(c) Delegate authority to the Interim Director of Regeneration to enter into a Pre-Construction Services Agreement with Slough Urban Renewal and approve a budget of £250,000 for SUR to undertake a range of building surveys and preliminary design	SMP might not be structurally suitable for conversion	As part of the investigations a full building and structural survey will be undertaken	4	The completed building will benefit from construction warranties
(d) Agree that SBC should offer the opportunity for the Trust to move (mainly) into the 4th floor of Observatory House, with SBC managing the move and covering all reasonable costs.	The available space at 25 Windsor Road is circa 30% greater than the combined space at LMP/SMP and will become a financial drain.	The Council will seek to lease-out space to third party organisations to reduce liability and generate an income stream.	6	The Council plans to reduce from an 8:10 to 5:10 desk ratio as part of the Transformation Agenda. This will create additional space to lease, generating additional income.
(d) Agree that SBC should offer the opportunity for the Trust to move (mainly) into the 4th floor of Observatory House, with SBC managing the move and covering all reasonable costs.	Substantially less car parking than Montem	The new office is immediately beside Herschel car park and comes with 246 spaces on a long lease.	2	The space currently enjoyed at Montem would no longer be available once the Montem site residential redeveloped works commence on site.

c) Human Rights Act and Other Legal Implications

No Human Rights Act or other legal implications are considered to arise from the recommendations contained in this Report.

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

Releasing SMP for conversion to affordable housing would make a very positive impact on the outcomes contained in the Housing Strategy and would directly benefit the most disadvantaged groups.

e) Property Implications - see Section 5 below

5 **Supporting Information**

Background

- 5.1 On 28 May 2018, Cabinet agreed to a recommendation to purchase the freehold interest of 25 Windsor Road, which included a budget for associated costs including fit-out and IT infrastructure. At the same meeting, Cabinet agreed that SMP should be redeveloped to provide a mix of social and affordable housing that would make a material contribution to the Housing Strategy.
- 5.2 In the most recent update to Cabinet (September 2019), it was noted that East Berkshire Clinical Commissioning Group (“the CCG”) had signed non-binding HoTs to lease space at SMP. However, any final (unconditional) lease decision would be subject to sign-off by the NHS, Department of Health and Social Care and HM Treasury as part of a wider programme. The expectation was that the CCG would be able to provide a definitive update on its ability to go unconditional by the end of 2019.
- 5.3 Feedback from the CCG was received in December 2019. Whilst the CCG remains very keen to work with SBC to develop an integrated approach to service delivery; it did not receive sign-off for the SMP project within required timescales. This position has coincided with unanticipated in-year and future year financial pressures associated with the performance of Slough Children’s Services Trust (“the Trust”), which has already been reported to Cabinet, which would be exacerbated by continuing to operate services from two main corporate buildings.

Redevelopment of SMP

- 5.4 The Council’s preferred option in May 2018 was to redevelop SMP via Slough Urban Renewal (“SUR”) as a residential Community Project. This would have involved SBC paying the full conversion cost.
- 5.5 In order to meet various forms of housing need, including alleviating homelessness and reducing the use of expensive temporary accommodation, it was agreed that the entire development should be designated as social and affordable housing.
- 5.6 SUR has provided an updated cost estimate for Council budgeting purposes, which indicates a material increase in the conversion costs, including build cost inflation. At present no surveys have been commissioned in relation to the existing structure (roof, electrical, M&E installations, asbestos etc) or components like the roof, windows and foundations. Therefore, the cost estimate could reasonably be described as a worst case that includes a large contingency and a risk factor built into the construction cost.
- 5.7 Against this background, the recommendation is that the SBC should take an incremental approach. The Council has the ability through SUR to initiate the redevelopment of SMP as a Community Project and progressively commission each stage. The first stage would be to commit to undertaking preliminary design and surveys to define the project scope. This would be achieved by entering into a Pre-Construction Services Agreement (“PCSA”).

- 5.8 Based on feedback from SUR, the cost of undertaking a preliminary design and a full suite of condition surveys would be £250k. Since the PCSA has a gateway approach already built-in, entering into a PCSA to commission the early design/surveys would enable the project cost estimate to be revised and allow the risks to reduce without committing the Council to further costs and inform the scope should there be a limited capital budget. Since the design and surveys would be owned by SBC, the information could be used by the Council to assess this route to delivery through SUR or alternative procurement methods in the event that the SUR price was considered uncompetitive.
- 5.9 Subject to entering into a PCSA with SUR by the end of March 2020, the project could be on site in Q1 2021. Assuming an 18 construction month programme, the development could be complete by Q3 2022.
- 5.10 In making this recommendation, SBC is not dismissing the potential of a future partnership with the CCG and maintains its shared One Public Estate (“OPE”) objectives with healthcare providers. Whilst the timescales have not worked for SMP, the CCG is still committed to working collaboratively with SBC to achieve mutual objectives associated with the East Berkshire CCG Primary Care Infrastructure Plan 2020-2025.

Slough Children’s Services Trust

- 5.11 The idea of leasing space to the CCG allowed the Trust to remain in SMP, albeit that it would need to give up some ground floor space. However, subject to Cabinet reaffirming its previous decision to redevelop SMP for residential use, the Trust will need to move to alternative premises.
- 5.12 Based on the License Agreement between the parties, should SBC wish to sell, convert, demolish or redevelop SMP, it can serve 3 months notice to the Trust. In doing so, the agreement states that the Council would need to provide alternative accommodation and pay all relocation costs. The agreement contains no definition of “*alternative accommodation*” other than to say that it must provide equivalent space.
- 5.13 SMP provides 61,000 sqft of space over three floors. At present, the Trust occupies the ground floor of SMP with the exception of the Venus suites and shared reception area, estimated to be in the region of 15,000 sqft. With no obvious alternative, the logical solution is to move the Trust into Observatory House. The vacant 4th floor has a Gross Internal Area of 18,489 sqft; therefore it exceeds the requirements of the License Agreement.
- 5.14 The potential to provide a separate public access and ground floor meeting space is being examined. The budget cost and implications will need to be subject to further review.

Observatory House

- 5.15 The business case for the acquisition of Observatory House worked on the basis that the revenue position would be cost neutral by 2021. It made the assumption that the Council will occupy floors 0-3 (72,123 sq.ft.), leasing out 35,612 sq.ft. on the top two floors to generate a commercial income stream

that would offset borrowing costs. This position has subsequently changed for the following reasons.

- 5.15.1 Observatory House has been used to accommodate returning staff from Arvato, following the decision to return these services to the Council; and
 - 5.15.2 As described above, the redevelopment of SMP for residential use means that back-office Children's Services will now be undertaken mainly from the 4th floor of Observatory House.
- 5.16 As a consequence of the above and as agreed in June 2019, the Council is now seeking to lease only 17,123 sqft on the top floor.
- 5.17 The Council is speaking to potential occupiers and remains on-track to lease the available space and generate a commercial return. Whilst highly sensitive at this stage, the prospective occupiers will make a substantial contribution to future Regeneration and/or Economic Development strategies.
- 5.18 The financial impact of the above is discussed in Confidential Appendix One.

6 **Comments of Other Committees**

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

7 **Conclusion**

- 7.1 Relocating the Council's headquarters back into the town centre was a long-term aspiration for the Council and sent a clear message to current and potential investor's that SBC has confidence in Slough as a major destination for commercial-led regeneration.
- 7.2 Whilst delayed due to aspirations to introduce an integrated care hub, the proposed redevelopment of SMP into a mix of social and affordable housing will provide at least 64 new apartments for rent, which will help to meet growing demand and reduce pressure on the general fund.
- 7.3 In purchasing Observatory House, it was noted that the acquisition would introduce a degree of risk associated with the initial unoccupied space, which could introduce budget pressures in financial years 2018/19 to 2020/21. The expectation was that the building will be fully occupied within three years and, at worst, generate a short-term revenue pressure.
- 7.4 This report has shown that whilst the business case is slightly behind schedule, the cost of moving to Observatory House by the financial year 2020/21 is still £0.5m better than the agreed "Worst Case". Looking further ahead, it demonstrates that the Council will benefit from an overall estates cost saving of £0.150m by 2021/22, increasing to £0.730m per year by 2023/24. It can therefore reasonably be concluded that the base business case from 2018 will be outperformed.
- 7.5 Importantly, moving the Council's HQ into the town centre was not purely motivated by reducing costs. This long-term aspiration reflected a desire for the Council to play a key role in economic development and inclusive growth

by increasing footfall. This objective has already been achieved, but will be developed further through the leasing of commercial space.

8. Appendices

Appendix 1 – Business Case Update (contains exempt information and is included in Part II of the agenda)

9. Background Papers

None.