Extraordinary Council Meeting

21 January 2021

Title	**Capital Budgets for Council Development Programme**
Purpose of the report	To make a decision
Report Author	Terry Collier, Deputy Chief Executive Heather Morgan, Group Head Regeneration and Growth
Cabinet Member	Cllr John Boughtflower
Confidential	Report is not confidential but appendices 2 and 3 are
Corporate Priority	Financial Sustainability Housing
Recommendations	Ahead of the February 2021 Council meeting and the setting of the Capital Programme for the years 2021/22 to 2024/25, Councillors are asked to decide whether the capital provision for the developments listed below (being those development projects where budget provision has been approved in the general budget cycle rather than specific reports to the Council) are to be included in such Capital Programme: 1.Ceaser Court phase II, Sunbury (£14.6m phases 1 and 2 (£6.3m in 21/22 for phase 2) 2.Thameside House, Staines-upon-Thames (£46.45m) 3.Ashford Multi-Storey Car Park (Funded initially from £10m capital provision 2021/21 for Regeneration and Housing Opportunities) 4.Oast House, Staines-upon-Thames (£77.678m excluding purchase cost) 5.Tothill car park, Staines-upon-Thames (within £8m provision for Elmsleigh Centre) 6.Vodaphone/William Hill, Staines-upon-Thames (within £8m for Elmsleigh Centre)
Reason for Recommendations	The allocation of capital for development projects is approved during the usual budget cycle. In order to inform the final preparations for the Council meeting in February, and to enable full debate by Councillors without time constraints, Councillors are asked to make a decision on the recommendations.

1. Key issues

1.1 At Council on 10 December 2020, the Leader announced that he was calling for an Extraordinary Council Meeting (ECM) in January 2021 to consider the Councils development portfolio. It was noted that there was a great deal of opposition to high-rise development in Staines-upon-Thames, but at the same time it was recognised that these developments have the opportunity to bring forward a very significant level of affordable housing in the borough for Spelthorne residents.

1.2 As a major landowner in the borough, the Council has a critical role in place making on several fronts. These re expressed in a number of corporate policies that have been adopted by Full Council:

(1) helping deliver the housing numbers required as part of the Local Plan which links to corporate objectives and priorities for housing delivery upfront

(2) delivering mixed use regeneration schemes which are focused on much needed residential housing, and in particular housing that is affordable to local residents

(3) civic leadership role in ensuring a prosperous local economy especially in terms of the need to ensure a robust recovery post-COVID-19 (retailers and restaurants need local residents to create footfall).

<u>Schemes for consideration</u>

1.3 The Councils development programme looks to deliver on the above. There are a number of schemes which are not for consideration by Council this evening, and the rationale for this is set out below:

(a) Occupied (Churchill Way and Bugle)

(b) Under construction - White House (homeless accommodation), Harper House (temporary accommodation for families), Ceaser Court Phase 1 (50% affordable and 50% private sector rented) and West Wing at Knowle Green (100% affordable)

(c) Non-residential (Leisure)

(d) Where Council has very recently approved a construction budget based on fully tendered costs for a development – Ashford Victory Place (Council approved the construction budget on 23 October 2020)

1.4 The sites forming part of the development portfolio which are for consideration by Council under this report are set out below:

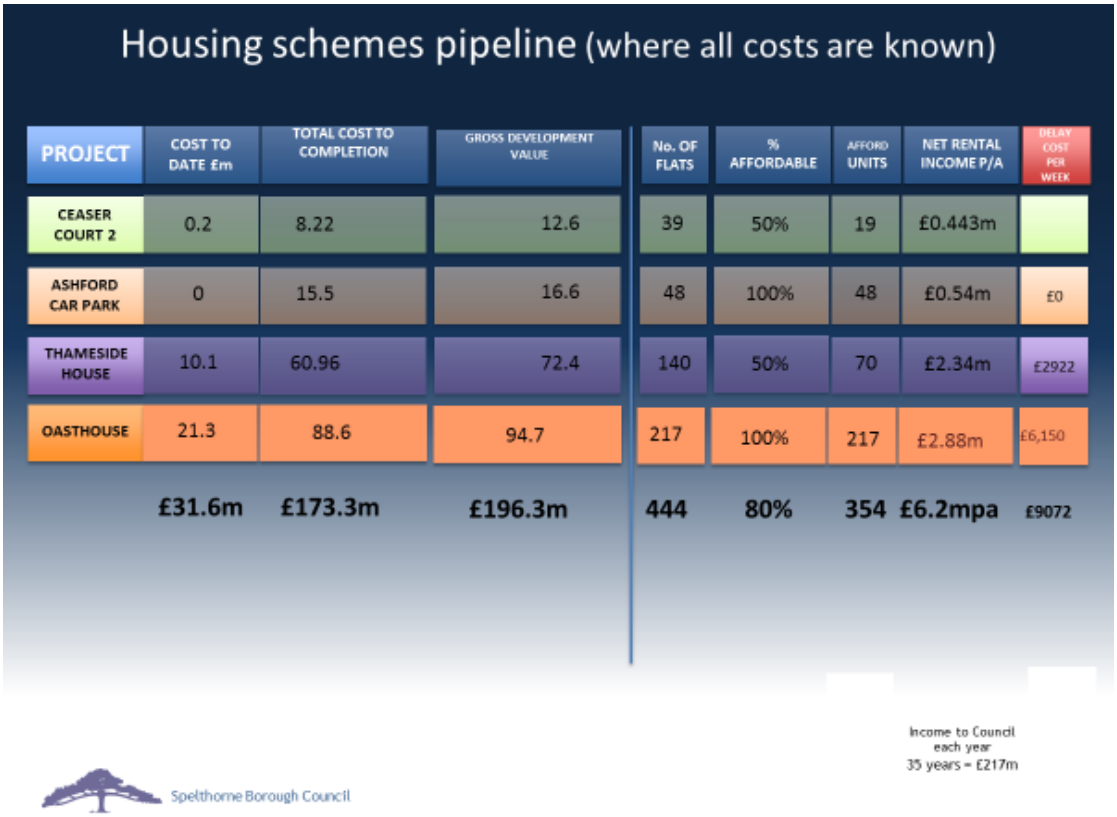
Location	Stage	Accommodation type
Ceaser Court phase 2 (39 units)	Planning	Can be 50% affordable, remainder to be private rented
Thameside House (140 units)	Planning	50% affordable, 50% private rented
Ashford multi-storey car park (potential 48 units)	Feasibility	100% affordable

Oast House (potential 217 units plus creative workspace and potential theatre)	Feasibility	100% affordable
Tothill car park (potential 250 units plus commercial and retail)	Feasibility	50% affordable, 50% private rented
William Hill/Vodaphone (14 units)	Feasibility	100% affordable

1.5 It will be evident from the final column in the table that all the schemes would deliver at least 50% affordable rented accommodation (80% of market rent). Of the 708 units above, 493 would be affordable rented which equates to 70%.

Headline information

1.6 To aid councillors in their decision making, an overarching picture of the pipeline for the schemes in the table is provided below. The first 'slide' sets out information on the overall costs to date for the portfolio, the cost to completion, gross development cost, gross development value, number of units, number and percentage of affordable units, net annual rental income (to Knowle Green Estates [KGE] which is 100% owned by the Council) and the cost of delay per week for the portfolio (£9,150). The second 'slide' sets out in simple terms what the level of investment will deliver for the Council and its residents. It should be noted that the amount of information which can be provided varies depending on how well progressed each development is.



1.7 **Appendix 1** is an aggregated slide to shoe the impact if none of the six development proposed were agreed by this ECM to be included in the Capital Programme for 2021/21 to 2024/25 at the February Council meeting. **Confidential Appendix 2** provides detail on an individual site basis and includes costs to date, cost of completion, gross development values, gross development costs, number of flats, percentage and number of affordable units, rental income and the cost of delayed development per week. This gives a very clear picture of the potential impacts which will arise because of individual decisions on whether a development proposal should go forward or not.

1.8 **Confidential Appendix 3** includes more on financial aspects of the developments as well as an up-to-date position on where they are in the development process. Councillors can then understand exactly what work has been undertaken to date, and abortive costs/work if a scheme does not go forwards**.**

<u>Delivery of affordable housing</u>

1.9 Historically, the private sector has failed to deliver the number of new homes that Government requires of the Borough. The Council is not presently meeting the development management requirements imposed by national policy in relation to housing land supply. We do not have a five-year housing land supply so we are already at the level where the presumption in favour of sustainable development applies for all schemes within the developed area.

1.10 We are therefore required to put in place an annual Housing Delivery Test Action Plan (HDTAP) setting out how we will increase our supply. Our delivery in 2019/20 was only 60% of Government requirements (using the 606 units per annum figure).

1.11 The lack of delivery of Section 106 affordable housing is particularly concerning when you consider that between 2015 and 2020 only 199 units have been delivered (and mostly in the early years as a result of A2D's Stanwell New Start regeneration programme). No net additional affordable units have been provided by developers in the past two years. There are nearly 2,100 residents currently on our Housing Register, and 11 households on average are 'chasing' each new affordable property that comes forward for letting.

1.12 The delivery of a high percentage of affordable housing for our residents is a cornerstone of the Councils development programme. Any of the developments outlined in this report which Council decide not proceed will impact on that delivery to the detriment of residents in the borough.

Impact on the Local Plan and Green Belt

1.13 It is clear that if Council development schemes are not agreed by this ECM to go into the capital programme, the early years of the plan will under-deliver on housing numbers. Put simply this means that more sites will have to be identified over and above the number actually required to meet the current annual number of 606 units pa in order for the plan to be found sound.

1.14 Council owned sites are expected to deliver a significant proportion of the identified housing need over the Local Plan period. The six sites under consideration this evening will contribute 444 units to the 5-year land supply and a further 264 units are projected to be delivered in years 6-15. Overall, they account for 19% of the total SLAA sites and therefore our supply as a whole

1.15 Failing to agree to move forward on these six schemes could affect the Green Belt. If there are not sufficient sites to otherwise meet the housing supply in the developed area then this will undoubtedly lead to a greater pressure through the Examination process to release additional Green Belt land to compensate (with all the additional environmental implications which will also fall out as a result).

1.16 If the 'brownfield only' approach cannot deliver the required numbers then the only alternative is to go back to the approach being taken in 2019/20 and consider some limited release of Green Belt sites. Failing to agree these six sites for inclusion in the Capital Programme would increase the deficit by 78% (using the 489 units pa figure), by adding *another 708 units*. This would inevitably mean reverting back to similar numbers of Green Belt sites to the Preferred Options rather than being able to remove from consideration some of the larger and most contentious sites.

How decisions of this ECM feed into February Council

1.17 The steer provided by the ECM as to which schemes are to be moved forward, will feed into the Capital Programme 2021-22 to 2024-25 report to be approved by full Council in February 2021, as required by statutory regulations. The Capital Programme formally represents the budget for approved schemes and will set out how these schemes will be financed. It also demonstrates how that funding of the total Capital Programme is compliant with the requirements of the CIPFA Prudential Code, including setting out the required Prudential Indicators covering both required borrowing limits of the Operational Boundary and the Authorised Limit. Additionally, the

Capital Programme report will confirm that the Council's proposals are compliant with the new borrowing terms of the Public Works Loan Board (PWLB).

2. Options analysis and proposal

2.1 Council is being asked to decide which of the developments set out in the table at para 1.4 they wish to proceed with from a *budgetary point of view only, and this will then feed into the Capital Programme 2021/22 to 2024/25 report which the Council will approve in February 2021.* It is for Cabinet (until the committee system is in place) to decide on how to actually spend the money that Council 'approves' as part of the 2021/22 to 2024/25 capital programme. Cleary it is expected that this will sit within the parameters set out in the confidential appendices in order to give confidence to Council that if they agree individual developments they will come forward in the manner expected.

2.2 Once the committee system is in place (subject to agreement by Council at an extraordinary meeting on 25 March 2021) these matters would be within the remit of the Corporate Policy and Resources Committee which is proposed to be responsible for financial, budgetary and asset matters.

2.3 Those schemes that are proceeded with would then be reflected in the Capital Programme for 2021/22 to 2024/25 and the Capital Strategy for 2021 which is going to February Council as well.

<u>Risk and impacts</u>

2.4 Councillors will be aware that there is an Extraordinary Cabinet meeting on 25 January 2021 for Cabinet to decide whether "any proposed development of Staines Town Centre by Spelthorne Borough Council should be kept on hold until the Staines Development Framework has been adopted". The schemes for consideration at this ECM include all those development sites within Staines-upon-Thames plus two others, namely Ceaser Court Phase 2 Sunbury and Ashford multi-storey car park.

2.5 As a result, the moratorium report and this ECM report are inextricably linked and bring up the same issues. It is therefore necessary to ensure that all the risks and issues are identified to both meetings in the interests of openness and transparency. In fact, if anything, the consequences of not proceeding with the development schemes is potentially more serious if the decision is not to proceed with any of the developments as opposed to the Moratorium which will delay matters until the adoption of the Local Plan and the Staines Development Framework which is realistically expected to be in March 2023. The decisions made as part of the Local Plan may effectively mean that the schemes do not go ahead for viability reasons.

2.6 The risks of not agreeing development schemes are very significant, and cannot be under-estimated. If the developments do not proceed it will fundamentally affect the future of the Council through:

(a) Increased budgetary and financial pressures

(b) Lower levels of affordable housing

(c) Reduction and delay in development activity

(d) An increased risk the Local Plan cannot deliver the required housing numbers and is found 'unsound'

2.7 The key risks and impacts of these development schemes not moving forwards are set out in the boxes below. Full details are provided in **Appendix 4**.

Financial Impacts
Adverse impact on the Council's Revenue budget requiring additional budget savings and/or generating alternative income. Thameside expected to contribute **£1.1m** per annum (net interest margin). Lost rental income for KGE for all development would be in the order of **£12m** Holding costs for all developments of **£8.87m** Adverse impact on the net interest margin on mixed schemes Smaller schemes are likely to result in a net loss once the cost of purchase of site is taken into account. Cost of compulsorily acquiring housing sites to ensure we can deliver Local Plan housing numbers

Affordable/Development
Delay in affordable housing (2,100 households in need on the housing register) Schemes can deliver between 50 – 100% affordable rented Development schemes could deliver c.493 units (24% of current need) Last year no net new additional affordable units were delivered by developers Capital monies on abortive development projects will have to be converted into revenue **(£3.95m**) Reduction in CIL payments will impact on the 'pot' available for infrastructure projects (**£650k** known costs) Market conditions are not favourable for securing a realistic price for sale (due to COVID-19 and Brexit concerns)

Strategic Planning
Housing figure back up to 606 from 489 per annum Pressure to provide alternative sites especially if brownfield only option is pursued (need to find around a *further* **708** units over the life of the plan on top of the deficit of 2,614 homes if the housing number is 603 pa and 931 if the number is 489 pa) Concerns over the deliverability - Council schemes for ECM consideration are delivering 19% of the Strategic Land Availability Assessment (SLAA) sites (444 units in years 1 to 5 and 264 in years 6 to 15)

Threat of Green Belt sites coming forward via planning applications, including those rejected at the Preferred Options stage Contrary to national policy/guidance (would fundamentally restrict the use of significantly increased densities in sustainable areas) Increased risk that the examining inspector will end up picking sites which the Council, left to its own choices, would not have brought forward Worsen position in terms of housing land supply (only delivering 60% of government requirement)

3. Financial implications

Borrowing

3.1 Alongside approving the Capital Programme provision for all capital projects including housing delivery pipeline schemes (February 2020 Council), the Council has already set (as required by the Prudential Code), borrowing limits for its total capital expenditure (Operational Boundary and Authorised Limit). These limits have been agreed for the current financial year and the following three financial years to fund all the schemes in the current Capital Programme.

3.2 The Council at its February 2021 meeting will be refreshing the Capital Programme (alongside the Capital Strategy) by rolling forward the period covered by the Programme by one year to cover the period of 2021-22 to 2024-25 and will be updating its Borrowing Limits for that period. Currently the Operational Boundary borrowing limit is as follows:

2020-21 £1,250m

2021-22 £1,250m

2022-22 £1,300m

2023-24 £1,350m

3.3 and the Authorised Limit (which is a worst-case limit and allows for unforeseen cashflow events) is as follows:

2020-21 £1,350m

2021-22 £1,350m

2022-23 £1,400m

2023-24 £1,450m

3.4 These limits include borrowing already undertaken by the Council. As a result of the initial work by officers on the draft Capital Programme for 2021-22 to 2024-25 (with some general contingency provisions being removed), it is anticipated that the total Capital Spend over the next four years will reduce. Initial modelling suggests a reduction from £326m for the current 4-year period to approximately £250m for the new 4 year period (a reduction of £76m). Current borrowing limits are likely to be more than sufficient for the next four years and indeed may be reduced slightly. Council are therefore not required to extend the borrowing limit.

3.5 Clearly the decisions of this ECM will inform and shape the schemes moving forward for inclusion in the Capital Programme which the Council is required by statute to approve at its February 2021 Council meeting.

3.6 From a risk point of view, the financial implications of not proceeding with any of the individual sites are set out in full in the two confidential appendices and in the first section of **Appendix 3.**

4. Other considerations

4.1 These are covered in **Appendix 3.**

5. Sustainability/Climate Change Implications

5.1 Not applicable.

6. Timetable for implementation

6.1 The decision will feed into the Capital Programme for 2021/22 to 2024/25 which will be considered at Council on 25 February 2021 as part of the annual budget setting process.

Background papers: There are none

Appendices:

1 Aggregated of Council schemes under consideration at ECM
2 Information on development costs, rental income and levels of affordable housing across the portfolio **(confidential)**
3 Information on individual development schemes **(confidential)**
4 Risks and Issues around not delivering on the Council's development programme.