Council

9 December 2021

	Thameside House (Potential Design Revisions) Part 1 report
Purpose of the report	To make a Key Decision
Report Author	Richard Mortimer (Development Advisor)
Wards affected	Staines Town
Exempt	**Part exempt.**
Exempt reason	Appendices 2 to 4 contain exempt information within the meaning of Part 1 of Schedule 12A to the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985 and by the Local Government (Access to information) (Variation) Order 2006 Paragraph 3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information) and in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information because, disclosure to the public would prejudice the financial position of the authority in the bidding process for future construction works by allowing other bidders to know the position of the Council. This in turn prejudices the Council by (i) distorting the bids process and (ii) prejudicing the opportunity for the Council's future regeneration in the Borough.
Corporate Priority	Housing & Regeneration
Recommendations	**The Sub Committee were asked to:** **1. Note this planning application was submitted in March 2020, has been amended post submission and has been on hold since the Moratorium was put in place in January 2021.** **2. Authorise further revisions to the planning submission in respect of energy efficiency, massing, residential mix and use as set out in this report.** **3. Authorise commencement of negotiations with an International Company for office space within the scheme.** **4. Authorise the progression of a flexible planning application that allows the Council to build either the 12 storey amended residential scheme or the increased office option (same height) should**

	acceptable terms be agreed with an International Company **Under the referrals scheme in the constitution the Council are to review the decision made by the Development Sub-Committee.**
Reason for Recommendation	1. **The Council's objectives have changed, and the scheme now seeks to maximise the number of affordable units (the housing register has increased from 2,200 up to over 3,000) and to deliver 2 bedroom units (the area of greatest need).** 2. **Whilst the scheme already exceeds planning policy requirements in terms of energy efficiency, there are opportunities to make further improvements to achieve greater CO_2 reductions.** 3. **Options for a lower scale scheme have been developed in response to concerns from councillors (moratorium) and public sentiment.** 4. **The Moratorium continues to place an unnecessary holding cost burden upon the Council during this period of inactivity. If it is not lifted in the near future there is also a possibility that our auditors may not allow the Council to capitalise costs resulting in an adverse hit on the Revenue budget. There are currently £1.13m fees at risk.** 5. **Continual delay will lead to the project costing more to deliver than it would have done earlier in the year as a result of the pandemic coupled with Brexit (materials and lead in times). Scheme costs for the submitted planning scheme have increased in the last 9 months.** 6. **Retaining an International Company not only contributes to the economic vitality and vibrancy of Staines town centre and its regeneration but also ensures we retain several hundred high value jobs within Spelthorne.**

Set out below is the original report which was considered by the Development Sub-Committee on 15 November 2021 with a few minor amendments to remove all commercially sensitive or financial information. This is to enable to the main report to be publicly available to ensure openness and transparency. All Councillors are still able to view the full Part 2 report which went to the Development Sub Committee on Mod.Gov.

Development Sub Committee Report

1. Background

1.1 Thameside House was acquired in May 2018. The acquisition was based on high level feasibility targets approved by Cabinet at the time that assumed 100 apartments and ground floor commercial uses. Through design development, pre application engagement with the Local Planning Authority (LPA) and the South-East Design Review Panel (an independent assessor), a scheme of 140 apartments and approximately 21,000 sq ft offices over 15 storeys was agreed as being appropriate for the site. Five s106 affordable units have been agreed through the planning viability appraisal process.

1.2 Planning was submitted in March 2020. Partly as a consequence of the COVID-19 pandemic, the Housing Options Team has witnessed a significant increase in demand for affordable homes. As a result, the new Administration (which took control in June 2020) switched the Councils' focus in its development portfolio from private rented sector apartments (PRS) to maximising affordable homes to meet this need. Therefore, Assets in consultation with Housing and Cabinet Members at the time made changes by swapping some of the PRS units (58 two 2 beds and 7 one1 beds) for affordable occupations. The mix now stands at 50% PRS and 50% affordable (70 apartments with 90% two beds).

1.3 In October 2020, Spelthorne declared a Climate Emergency. In January 2021, the Moratorium was imposed and remains in existence for all Council schemes with Staines town centre. The previous Administration had requested that the scheme did not go before the Planning Committee until the Moratorium was lifted. The three conditions for lifting the Moratorium were: (1) the formation of the Development Sub-Committee (2) the consultation exercise on the Objectives and Options Consultation had been undertaken on the Staines Development Framework - this has been done and (3) That the viability of all the developments were reviewed by the Assets Team. In consultation with the Development Sub Committee, proposed amendments to the scheme have been made in order to ensure it more closely aligns with current stakeholder aspirations.

1.4 Very recently, an international company within the town have enquired about the possibility of taking a pre-let for office space in the new redevelopment. Subject to agreeing acceptable terms, this would require the second floor of residential to be replaced with additional office accommodation. This would result in the loss of 14 apartments taking the provision from 96 units to 82 units. However, if a deal can be done with them then it would enable Staines-upon-Thames to have an important high-profile international company with several hundred staff that would otherwise relocate out of the borough.

1.5 This report is the first in a series that will track development progress through the key gateway stages post planning submission as set out in the approved terms of reference for the Development Sub-Committee.

<u>Current budget position on proposed development</u>

1.6 At the Extraordinary Council Meeting (ECM) on 21 January 2021, Full Council approved the scheme in the Council's Capital Programme. This was confirmed by Council in February 2021 when it further approved the Capital Programme 2021/21 – 2024/25 with a Budget provision of £47.9m. Cabinet approved a budget (19 July 2018) for design fees which could be used to cover the costs of these changes if approved. A separate budget will need to be sought in the future for construction costs.

2. Options analysis and proposal

Option 1: Do Nothing

2.1 There is the option to mothball the site and do nothing. This is a poor use of valuable resources where the Council already committed over £10m in land costs and fees. Doing nothing will mean that the council will continue to bear monthly holding costs in the order of £19,500pcm. This includes interest assumed at 1% (short term rate) and 24/7 security at £10,000pcm. Business rates, where they cannot be exempted run at approximately £348,000pa (£29,000pcm). Doing nothing also delays the time from which the scheme could make a revenue contribution to the Council's Revenue Budget through the net margin KGE will be paying on the loan financing relating to the PRS units. Doing nothing runs the risk of auditors requiring that we reallocate these to the Council's Revenue Budget with an inevitable adverse impact on the Council's finances adding additional pressures to an already challenging Budget context.

Risks

2.2 Doing nothing means an opportunity to deliver much needed housing will be missed that will not only contributes towards meeting increasing demand for affordable and PRS housing but also makes a considerable contribution to the LPA's own Housing Delivery Targets. The Council would also be failing on housing delivery, one of its own key objectives.

2.3 Mothballing a prominent prime riverside site would also be detrimental to the future regeneration of Staines Town Centre. The Council could also be criticised for "land banking" an expensive asset which has high monthly holding costs.

2.4 Since Brexit and the ongoing pandemic, build costs have started to rise since early Q2/21 and this trend is likely to continue in the short term. Doing nothing would result in the council having to pay more to build the same product if planning permission were to be granted.

2.5 This option is not recommended.

Option 2: keep the scheme as is

2.6 The scheme could be kept as is, with no additional amendments to the existing planning application, which has been supported by the LPA (at officer level) and South-East Design Review Panel and is ready for determination. However, notwithstanding the above, it is highly probable that if the scheme remains at 15 storeys then the prospects of obtaining planning approval from the planning committee are very slim.

Risks

2.7 If the option of staying with the existing planning submission is authorised by the Development Sub Committee, then the prospects of refusal are far greater than if the scheme were amended. As the Council cannot appeal its own decision (if refused by the LPA) we would be back in a position of Do Nothing with all the risks as set out above.

This option is not recommended.

Option 3: Sell the site

2.8 The site could be sold without planning, but this sends the wrong message regarding delivery of affordable housing being a key priority to this Council.

Risks

2.9 Firstly, it is likely to be developed for private housing with minimal affordable housing (the current application shows only five sS106 units are viable). Secondly, the Council will lose an opportunity to deliver 140 much-needed homes for rent as a developer would most likely seek market sales. Thirdly, a 3rd party owner is unlikely to make the same height concession and would seek a 15 storey development to maximise the site. If refused by the LPA they would undoubtedly go to appeal and may succeed at that level (using arguments around shortfall in housing delivery, SHLAA allocation for 140 units, presumption in favour of development etc). Fourthly, a 3rd party developer's borrowing costs and profit requirements are greater than those of the Council's, meaning the amount they could afford to pay for the site would be significantly less. Finally, there would be a further cost to the Council as design fees and other holding costs would need to be written off as Revenue not Capital. Furthermore, the Council could not easily repay the associated Public Work Loans Board loan it took out when it acquired the site due to the early repayment penalties.

2.10 For these reasons, this option is not recommended.

Option 4: Amend the current scheme

2.11 Recent public and Planning Committee sentiment towards tall buildings up to 15 storeys has not been favourable. Furthermore, whilst the Thameside House public consultation in 2019 received mixed feedback, there has been over 300 coordinated objections since the planning application was submitted. These are primarily focused on height. Significant height concerns have also featured in consultation responses to the recent Objectives and Options consultation on the Staines Development Framework.

2.12 In order to address this, Assets are proposing that the main tower is reduced from 15 to 12 storeys. This loss of units can be mitigated by increasing the rear block from 7 to 10 storeys. Imagery is attached at **Appendix 1**. This option will result in an overall loss of approximately 14 apartments subject to further rights of light and daylighting/sunlighting tests for the part increased from 7 to 10 storeys. Reducing the height to a maximum of 12 storeys differentiates the revised proposal from other taller schemes which have recently been refused by committee but recommended for approval by the LPA.

2.13 For the purposes of this report, there are two options (a) with the international company (b) without the international company.

Option a

2.14 In this option it is assumed that the international company will take c32,000 sq ft which leaves 82 apartments.

Option b

2.15 This assumes the international company do not occupy. In this instance, the same number of units in the current planning submission (96 apartments) can be maintained alongside c20,500 sq ft of offices. This aligns with the current planning submission although it is contained within revised 12 and 10 storey massing.

2.16 If the principle of the revised massing is approved, there would be an opportunity to review whether the number of two bed apartments in the proposed 10 storey wing can be increased to align with Housing's greatest area of need (2 bed apartments) if greater affordable occupations are preferred.

2.17 If the Development Sub Committee agree to revise the scheme then it is proposed that the current scheme is amended to incorporate these revisions, and that Assets seek agreement with the LPA to revise the current application for flexible uses. This will include provision for the primarily residential scheme with reduced heights and greater energy efficiency but with the option to convert the second floor of residential to offices should a deal proceed with the international company.

2.18 Enhanced green initiatives have also been considered as an important part of the current scheme. Whilst the scheme's energy efficiency significantly exceeds policy requirements, it is proposed that additional air source heat pump capacity is added to include space heating and increased u-values (thermal efficiency) for all windows. This will increase energy efficiency which stands at 17% in the current submission (against Part L 2013) to at least 30% improvement against Part L 2021 and SAP10.1 standards. These have superseded Part L 2013 which assumes gas whereas latest 2021 standard assumes all electric which is more environmentally friendly.

2.19 Financial appraisals that are attached to the part 2 report which were presented to the Development Sub-Committee shows the developments performance based on current estimates of costs and values for both options. They include an option with the international company taking c32,000 sqft and one that assumes they don't take a pre-let.

Risks

2.20 Whilst these revisions will result in an increase in costs, it is likely to increase the prospects of the revised scheme being approved as it differentiates this scheme from those which have been recently refused by the planning committee. More detail on the financial position is set out below.

2.21 There is also the prospect that the LPA may consider the changes to be too great thereby requiring a new application. This would set the timescale back by a minimum of 13 weeks assuming it is determined within the statutory period. Design is a subjective matter, and the LPA may consider the revised proposals to be too bulky. Therefore, the Council could end up in a position where the LPA are no longer supportive of the design changes which have been made to make the scheme more attractive to the Planning Committee.

2.22 Notwithstanding these risks, this option is recommended.

3 Financial implications

3.1 Councils are in a strong financial position to invest and develop property due to their ability to access long term fixed rate capital financing at historically low interest rates, although with rising inflations there are risks that these rates may start to rise. SBC can access that funding via the Public Works Loan Board as this housing led scheme falls within the category of housing regeneration and economic development within the borough. There are risks that interest rates could rise in the future which would make financing of the scheme more challenging. However presently the Council's advisers are anticipating that long term interest rates will remain relatively stable.

3.2 The financial objective of undertaking the development directly will be to ensure the scheme provides a suitable rental surplus over and above Knowle Green Estate's (KGE) borrowing costs. It also provides savings over and an average above payments to third party landlords. The Council would potentially make revenue saving of on average £6.5k pa per family placed from the Housing Register. Tight control of the contractor, regular meetings, and strong project management will ensure the build is kept to budget. Once completed, KGE will take on responsibility for rent collection and managing the residential accommodation.

3.3 The February 2021 Full Council meeting approved a Capital Programme Budget of £47.9m for the scheme. There is also a Cabinet approved budget for design fees which could be utilised to accommodate approved design changes.

3.4 It was agreed at the Extraordinary Overview and Scrutiny on February 9th 2021 that Term Sheets should be developed for each of the development projects the Council is undertaking. It is accepted that this is a "living document" that will evolve through the design development process and will be updated if and when substantive changes such as these are approved by the Development Sub-Committee.

3.5 As part of the design change process, the Assets team have been working with our Finance Team to establish rental viability with KGE.

4 Other Considerations

4.1 A Public Contracts Regulations compliant tender process was originally undertaken as part of the Cabinet approval process for design fees using the Perfect Circle Framework. All consultants have been appointed using this compliant framework.

5. Equality and Diversity

5.1 The Assets Team are working hard to create environments which celebrate diversity and welcomes difference, a place where everyone's rights and dignity are respected. We're striving to provide comfortable, fit for purpose living environments free from discrimination, prejudice, intimidation and all forms of harassment and bullying. We want to achieve this culture for all those that live and work in our communities. By demonstrating our commitment in equality and diversity through our day-to-day actions and our design objectives, we aspire to be a welcoming landlord creating environments where individual differences are celebrated in the places we create.

6. Sustainability/climate change implications

6.1 From the outset, our approach has always looked to reduce the energy consumption and therefore carbon emissions by taking a fabric first approach and we have looked to improve the building fabric performance beyond the minimum Building Regulation and SBC policy compliance. We have adapted an all-electric strategy to ensure that we are taking advantage of the decarbonisation of the grid. The overall energy strategy was developed with the new Part L 2021 and Future Homes standard in mind and we have utilised an air source heat pump system and heat recovery ventilation system to reduce the overall energy demand.

6.2 We have re-assessed the energy demand based on the latest carbon factors that have been published and widely used within multiple London boroughs (Standard Assessment Procedure 10.1), and this indicates that Thameside House is circa 40% better than the current Part L 2013 assessment compared to our previous assessment of 17%, this is above the minimum requirements that will be needed within the new Part L regulations which are due to come into effect next year. This is something we will raise with the LPA as Part L 2021 and SAP10.1's acceptance is now widespread and seen as a better alternative to the outdated Part L 2013 which is part of our current Local Plan.

7. Timetable for implementation

7.1 If these changes are approved, iterations will be made and further consultation with the LPA will need to be undertaken to establish whether the planning application can be amended or needs to be resubmitted. This will impact on the overall timescales.

7.2 Subject to planning being granted, we anticipate that a further report will be submitted in Q1/22 for the Development Sub Committee, Corporate Policy and Resources and Council to formally agree the costs of post planning, detailed design and construction**.**

7.3 A report will go to the Knowle Green Estates Board at the appropriate time

Instruct changes to design team – October 2021

Agree LPA consultation on changes/new application – Dates TBC

Planning Determination – Dependent on above. TBC

Appendices - Development Sub Committee report

1 Revised levels options study

2 Confidential - Development appraisal 1

Confidential - Development appraisal 2

3 Confidential - Term Sheet 4.10.21

4 Confidential - Financial viability Thameside House 14.10.21

4a Confidential - Financial viability assumptions Thameside House 14.10.21

4b Confidential - Financial viability projections Thameside House 14.10.21