

Development Sub Committee



13 December 2021

Title	Oast House/Kingston Road Car Park and Health and Wellbeing Centre
Purpose of the report	For decision
Report Author	Heather Morgan, Group Head Regeneration and Growth Richard Mortimer, Development Advisor
Ward(s) Affected	Staines South Staines
Exempt	Report No. Appendices A, D, E and F yes
Exemption Reason	<i>Appendices A, D, E and F 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 undertaking negotiations concerning the head lease of the property.</i>
Corporate Priority	Housing and regeneration Financial sustainability
Recommendations	Development Sub Committee is asked to: <ol style="list-style-type: none"> 1. Agree the key objectives which the Council is looking to achieve from the wider site as set out in paragraph 2.4. 2. Agree the preferred option for the residential element of the Oast House/Kingston Road site (Option 1)
Reason for Recommendation	On 19 October 2021 at Corporate Policy and Resources Committee, the Council as landowner agreed to the principle of entering into Heads of Terms with the NHS to deliver a state-of-the-art health and wellbeing centre for Staines-upon-Thames to provide a more holistic and integrated health and wellbeing service for our residents. It provides an opportunity for the Council to demonstrate that it is committed to bringing forward social infrastructure such as this in advance of the housing that we know we have to deliver as a result of central government imposed targets.

	This report is looking for the Council as landowner to determine the level of residential development that needs to be delivered alongside, both in terms of meeting the Councils housing need but also in ensuring that any development is financially viable
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1. Key issues

Background

- 1.1 The Oast House and Kingston Road car park was acquired from Surrey County Council at the end of October 2019. The Cabinet report for that acquisition and development was agreed prior, on 27 March 2019. More detail is provided in **Confidential Appendix A**.

Health and Wellbeing centre

- 1.2 Surrey Heartlands Clinical Commissioning Group (SHCCG) have been working in partnership with the NHS over a number of months with a view to delivering a more holistic and integrated health care solution for Staines-upon-Thames. They have been chosen by the NHS as one of six pilots around the UK to develop a new delivery model. This is very different to previous approaches where health and care needs have been provided in a mix of hospital outpatient, surgery and community settings.
- 1.3 Under current legislation, the Clinical Commissioning Group (CCG) cannot own or hold leasehold interests and can only commission services. From April 2022 this will change, with the creation of the Integrated Care Services (ICS). These organisations will be able to own freeholds and leaseholds and will enable a new model of service delivery. Surgeries will no longer have to be owned by the individual practices, although they will still hold the budget as members of the Primary Care Committee. That committee will still need to agree any financial spend. Space in the new Health and Wellbeing Centre would be leased out according to the needs of the local population and the ICS will lead on what was required based on evidence. In principle, this means that the amount of space can be adjusted to accommodate changing requirements over time (for example more community facilities for older people or younger people).
- 1.4 As set out in the reports to Development Sub-Committee and Corporate Policy and Resources Committee on 18 and 19 October, the North West Surrey Alliance Board agreed on 3 September that the Oast House site was their preferred site (with the current site as the fallback). Discussions with stakeholders have established the floorspace requirement was at that time 5,100sqm, though this has now reduced very marginally.
- 1.5 North West Surrey Alliance Board formally submitted an Outline Business Case (OBC) on 29 November, in line with the usual NHS business case format, which is health and wellbeing driven. At this stage, the aim is to secure capital funding, which requires them to put forward a preferred site (with a possible fall back) which have a realistic prospect of delivery. There has already been a round of 'soft' engagement to understand where the bid could be strengthened.

Political engagement – all councillors

- 1.6 Development Sub-Committee have been kept fully abreast of progress – with an initial report on 26th July, further information provided on 6 September, a further report on 18 October, and a verbal briefing update on 15 November. A report was considered by the Corporate Policy and Resources Committee on 18th October where a decision was made in principle to agree to entering into heads of terms with the NHS. All these reports are available to councillors via mod.gov, regardless of whether they sit on the committee or not.
- 1.7 Confidential briefing sessions have been held for all councillors on 22 September, 12 October and 24 November as well as a specific briefing session for Staines Cllrs on 4 November. The presentations from all these briefings have been placed in the members confidential library within mod.gov so those councillors who were unable to attend the briefings have not been disadvantaged. As always, officers have been available for any queries that councillors have had as a result of these sessions.

Decision making and governance

- 1.8 On 18th October the Corporate Policy and Resources Committee authorised continued negotiation with the NHS with a view to entering into a formal legal agreement with the CCG to offer our land under a long leasehold arrangement and for the Council to bear the construction risk on the core and shell, plus fit out. It was at that meeting that a request was made to brief Staines councillors separately (which took place on 4 November). At that meeting the Chair set a clear and specific brief to the Staines councillors, which was to only consider the three options set out in section 4 below. Feedback from that meeting is awaited. As it has not yet been received, it will need to be reported verbally at the meeting next Monday (as was also the case for the Thameside House report). As such, there will not be sufficient time or resources for officers to respond to any alternative options outside the brief which may nevertheless come forwards.
- 1.9 No decisions were made at that meeting on the residential element on the remainder of the scheme (i.e. the element which will not be leased to the NHS). However, the report did highlight the concerns from Councillors that 14 storeys was too high and detailed the viability for a scheme which was 10 storeys at its highest.

2. Strategic case/objectives for the Council

- 2.1 As an authority, we are now at the stage where the Council has to be clear what it is looking to achieve out of the wider mixed-use development on the remainder of the Oast House/Kingston Road car park site. This is separate to the decision to enter into a commercial agreement with the NHS on the Health and Wellbeing Centre.
- 2.2 Our drivers are very different to those of a private developer, whose primary motivation would be to secure a profit (not simply to ensure a scheme was viable) and ensure that the end product met market demand (whether that be 'for sale' units or private rented).
- 2.3 This site is strategically important within the town centre in terms of the place shaping opportunities it brings. It is very rare that an opportunity presents itself to deliver a truly transformational mixed-use development where 'the whole is greater than the sum of its parts'.

2.4 Set out below are the key objectives that the Council is looking to secure from the wider site:

1	Unique opportunity to provide social infrastructure (in the form of the health and wellbeing centre) ahead of the additional housing that we know has to be delivered as part of the Local Plan. This is an issue which we know is of great concern to councillors and residents. It will demonstrate the Council is being forward thinking and proactive
2	Holistic approach to health within one facility. This will be of considerable benefit for our residents as they will be able to access a range of services including those organisations which focus on wellbeing
3	Mix of complimentary uses which are truly integrated and will support each other. Any design needs to be holistic and ensure that each element does not turn its back on the other
4	Affordable rental housing for our residents to address the need for the Borough and its residents for additional affordable rental supply as identified in the Council's approved Housing Strategy. Exploring whether the affordable rental percentage can be set below the Government benchmark of 80% of market value.. 100% of the units should be affordable. Any scheme needs to maximise the affordable rented provision. On this site it is proposed that 100% of the units are affordable rented. The rental level is currently set at 80% of market rent
5	The scheme needs to be viable and financially sustainable for both the Council and its housing delivery vehicle Knowle Green Estates. Any scheme needs to ensure that the Council does not make a capital loss (ie. it covers the cost of acquisition and the development without necessarily making a profit particularly as the Council are looking to hold the asset rather than disposing of it or selling the units to recycle the capital receipt). Any scheme also needs to ensure that the cash flow can service the debt (i.e. the rental income received by Knowle Green Estates Ltd for the residential units is sufficient over time to pay back debt to the Council (failure to do so would financial problems for the Council))
6	The scheme seeks to achieve zero carbon or passivhaus standards. The scheme should have the ambition to be zero carbon, and we will be looking to apply the principles of Passivhaus (highly insulated), use renewable energy and green roofs and provide ventilation with heat recovery
7	Provision of creative/cultural and theatre space within the grade 2 listed building and separate cultural work space if financially viable. This conversion offers a unique opportunity to provide a creative/residential, community hub (along with the health and wellbeing centre). This element is subject to a separate Cultural Development Fund bid and is only viable if this funding bid is successful. The bid for this element is being taken forward in partnership with Pinewood Group and Royal Holloway University
8	Closer integration of this part of Staines- upon-Thames into the wider town centre. The proposed mix of uses will ensure a great flow between different parts of the town centre where the railway line has

traditionally been perceived as a barrier. Increased pedestrian activity and connectivity will help both areas grow and thrive
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The Sub-Committee will need to formally agree whether or not they wish to endorse all or only some of these key objectives. Two key considerations will be around the level of affordable housing (since this affects the viability of the scheme, and is also a strategic objective of the Council) and also around ensuring that financial viability is considered from the both Council's perspective (i.e. breaks even or makes a profit) or from Knowle Green Estates Ltd perspective (i.e. whether there is a positive rental cash flow) bearing in mind that ultimately if not viable for Knowle Green Estates Ltd will not be financially sustainable for Council.

3. Spelthorne Borough Council and role of Knowle Green Estates Ltd

- 3.1 Knowle Green Estates Ltd (KGE Ltd) is a housing company, owned wholly by Spelthorne Borough Council and was established to help the Council deliver key elements of its approved Housing Strategy including helping to tackle the housing crisis and provide new affordable homes for Spelthorne residents, key workers, and residents renting in the private sector. KGE Ltd's only shareholder is Spelthorne Borough Council, and it has a dedicated assets team provided by the Council and recharged to the Council and a Board of 4 directors (including two Non-Executive Directors).
- 3.2 **Appendix B** sets out the need for the company, its priorities, how it works and why the Council needs the company to assist in service delivery. The purpose and work of the company was covered in a presentation by the Directors to the Corporate Policy and Resources Committee on 29 November.
- 3.3 Slide 3 on Appendix 2 'how it works' sets out how the company operates. It is focused on a revenue cash flow model and relies on a rent received – akin to pension and investments companies holding a long-term asset to get a secure income stream. Most traditional housebuilders rely on a sales model whereby they re-circulate the profits made from the developments to provide the capital for their next development. Whereas the Council is looking to ensure that the residential units are provided on a long-term rental basis to benefit local residents.

4.0 Options analysis and proposal

Option: Do nothing

- 4.1 It is completely unrealistic to say that the Council can 'do nothing' with this site. It was bought in 2019 at a cost of £21m (including SDLT and associated costs) and each month we do not develop the site is costing the Council money (in terms of debt refinancing) without seeing the benefit of any development which can provide an income in return to the Council via Knowle Green Estates Ltd. This option would also fail to deliver much needed affordable housing.
- 4.2 Some form of development will have to take place, and it has to be financially viable (each site has to 'wash its own face'). If the health and wellbeing centre did not proceed, then a residential development would still come forward both from a financial point of view, but also in order to help meet the Councils

Local Plan housing delivery target of a minimum of 611 units each year. Due to the underperformance of the borough over a significant number of years to deliver housing, we actually have to provide 733 units each year as a 20% buffer has to be applied to help compensate for that historic under-delivery, This will continue to exacerbate the need to accelerate the building of homes.

4.3 The Kingston Road car park site is allocated in the Strategic Housing Land Availability Assessment for 180 units. Without the health and wellbeing centre there is a prospect that, subject to planning, this number might actually increase.

4.4 For these reasons, this option is not recommended.

Option 1: 14 and 8 storey scheme delivering 181 100% affordable rented units

4.5 From the Council's point of view we need to ensure that the scheme as a whole, including health centre, is viable to protect council taxpayers' interests. **Appendix C** sets out three options for developing out the Oast House site. **Confidential Appendix D** sets out the high-level financial impacts for each of the three options.

4.6 This scheme **breaks even** in financial viability terms from the Council's point of view (i.e. the schemes washes its own face and does not result in a loss whereby the value of the end product is worth less than the cost of developing it). In addition, **it works** for KGE in terms of the cashflow and the ability to repay the loan and the interest on it from the Council. However, the committee need to note that this **only** works if the scheme being delivered is 100% affordable rented housing (as for a wholly affordable rental approach the Council is able to pass the financing on at cost).

4.7 None of the three options work with a mix of private rented and affordable accommodation, in financial viability or cashflow terms. The only circumstances under which this would work from a cashflow point of view is if the Council were to agree to a further substantial investment package of equity and or loan finance for each property.

4.8 The Committee will note that the numbers of units are considerably less than those set out in the initial case for acquisition (Confidential Appendix A). This is as a result of a number of pre-application meetings between the assets team and the Local Planning Authority. The design approach of taller more slender elements mixed with low rise ensures a more positive experience for the passer by (who does not continually look up when walking through a space) and provide a more generous space at ground level. This approach also enables a greater mix of uses for the wider community and these benefits are deemed to outweigh the perceived disadvantage of the higher elements.

Risks

4.9 There is a risk that planning permission is not granted which may well affect the timetable for the delivery of the wider scheme and the delivery of the health and wellbeing centre.

4.10 On the basis that this is the **only scheme** which is financially viable for both the Council and KGE, it is being recommended as the preferred option.

Option 2: 8 and 10 storey scheme delivering 149 100% affordable rented units

- 4.11 Committee members will be aware that concerns have been expressed at two confidential councillor briefings, at the heights of the two residential blocks (14 storeys). Officers have been asked specifically whether or not it would still be viable for a scheme to be developed with lesser heights. These are set out in this option and option 3 below.
- 4.12 This has been considered from a viability perspective. It makes a **several million-pound loss** in financial terms from the Council's point of view, and it is **very marginal but works** for KGE in terms of the cashflow and the ability to repay the loan and the interest on it from the Council
- 4.13 From a design perspective, the increased density required would result in a far bulkier development, and the higher site coverage would give a much poorer experience for residents and visitors to the town at street level, with a greater sense of enclosure. In pre-application discussions the LPA have indicated that they are not supportive of such an approach. However, there is less likely to be resistance from the general public if a scheme with these reduced heights comes forward.

Risks

- 4.14 The very clear risk with this option is that, if built, the development makes a considerable financial loss, and this is effectively borne by the taxpayer at the end of the day. A lower scale of development is proportionately more expensive to build and therefore provides less Value for Money. It also brings in less rental income as a result of fewer units and therefore less money into the Council's revenue budget for delivering services
- 4.15 Committee members also need to be aware of the Council's duty to ensure that we achieve value for money for our council taxpayers from our developments and our need to demonstrate this to our external auditors. Lower scale development, combined with higher costs clearly means our ability to demonstrate this in audit terms is severely curtailed.
- 4.16 For the above reasons, this option is not recommended.

Option 3: 10 storey scheme delivering 171 100% affordable rented units

- 4.17 This has been considered from a viability perspective. It makes a **several million pound capital loss** in financial terms from the Council;s point of view, and these losses would negatively impact on the general fund and require the use of Spelthorne Council's Reserves to balance the budget. From KGE Revenue point of view, it is **marginal but works** in terms of the cashflow and the ability to repay the loan and the interest on it to the Council.
- 4.18 From a design perspective, the concerns around bulk are exacerbated by the fact that there is no relief through the introduction of lower elements. It effectively produces a solid façade which would not be supported by the Local Planning Authority.

Risks

- 4.19 These are the same as for option 2 above, and for those reasons this option is not recommended.

Financial implications

- 4.20 Councils are in a strong financial position to invest and develop property for the benefits of their local community, due to their ability to access long term fixed rate capital financing at historically low interest rates. SBC can access that funding via the Public Works Loan Board (PWLB) as this housing led scheme falls within the category of housing regeneration and economic development within the borough which is supported by the PWLB. There are risks that long term interest rates could rise in the future, as inflation is rising, which would make financing of the scheme more challenging. However presently the Council's advisers are anticipating that long term interest rates which are driven by, will remain relatively stable.
- 4.21 The capital contribution to be received from NHS will reduce the total amount of debt financing required for completing the overall scheme.
- 4.22 The financial objective of undertaking the wider 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 to the Council over and an above average payments to third party landlords. The Council would potentially make an average revenue saving of approximately £6.5k pa on average 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 the residential units are completed, KGE will take on responsibility for rent collection, tenants sustainment, and managing the residential accommodation.
- 4.23 The February 2021 Council meeting approved a Capital Programme Budget of £83.8m for the scheme, but the committees should note this was for the scheme before we were aware of the health and wellbeing proposal
- 4.24 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 and also more recently approved as part of the Sub-Committee's "six principles". This is attached at **Confidential Appendix E**. 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.
- 4.25 As part of the design change process, the Assets team have been working with our Finance Team to establish rental viability with KGE. **Appendix F** sets this out.

5 Other considerations

Governance and decision making

- 5.1 The Sub-Committee is being asked to make a decision, on the scheme which, Spelthorne (as landowner), wants to move forwards with. This is a completely separate process from any decision the Planning Committee will need to make on a subsequent planning application (under this separate quasi-judicial function). They are completely separate Council functions and decision making processes, and need to be kept as such. One cannot and does not influence the other.

Stakeholder engagement

- 5.2 A detailed communications plan is already being developed and our Head of Communications and Marketing sits on the joint NHS/SBC communication workstream on this project.
- 5.3 As part of the Council's process to date, all councillors (including ward councillors) have been given the opportunity to air their views and give their contributions (which was one of the six principles agreed recently at the Development Sub Committee).

Project Management

- 5.4 A part time resource within the Council has been identified as Project Manager (and their post will be backfilled by securing a temporary resource – with the substantive post holders time being attributed to the project as a capital cost). The Group Head of Regeneration and Growth will move up to the project sponsor role (having effectively acted as project manager up to this point).
- 5.5 The project team is already substantially in place and working on the scheme (development, procurement, finance, comms). Any remaining gaps will be identified, and a lead appointed by the project manager in the usual way. Reporting to the Development Sub-Committee will be undertaken at the key stages as required, and the project team will also have to feed into the rigorous project reporting that the CCG will be required to undertake for NHS England.
- 5.6 Any changes to the project in terms of the objectives set out in section 2 of the report above will be logged, and the Development Sub-Committee will need to explicitly approve these (whether they are project or politically driven), This is to ensure there is openness and transparency throughout the delivery of the project.

Procurement

- 5.7 The NHS have a standard procurement framework (called P22) which they use to call off contractors without having to go through a full procurement process. This would probably only work for the health and wellbeing centre construction as those contractors may not have expertise in the residential market as well (our element of the wider site).
- 5.8 The Council has its own Construction Framework and the advantage of us proceeding down a 'shell and core' plus fit out route is that the Council retains control over the development of the whole. The risks arising from two contractors working on different projects on one site at the same time needs to be taken out of the equation if at all possible.
- 5.9 A number of contractors sit on both the NHS and Council frameworks, and whilst we cannot pre-determine the outcomes of any procurement process, there would appear on the face of it to be a number of opportunities to align.
- 5.10 At this stage, the committee(s) should note the final decision on the procurement route is yet to be finalised and will be part of the discussions up to the development of the Full Business Case by the NHS.

Planning

- 5.11 Confidential pre-application discussions with the Council and the NHS have taken place with the LPA who have indicated their 'in principle' support. It will be for the planning committee to make the final decision.

- 5.12 Indicative plans are set out in **Appendix C** which show the new health and well-being centre fits into the wider redevelopment proposal, as well as providing some background narrative to the rationale behind the scheme.

Risk Management

- 5.13 At this stage the top five key project risks and mitigation are set out below. Management of risk is embedded in our project management process and will be recorded and actively monitored throughout the project.

Risk	Mitigation
<p>Multi- agency approach between the NHS and the Council adding additional complexity</p> <p>There is a risk the NHS may change their mind as to what they are looking to deliver</p>	<p>Combined project team meetings</p> <p>Close liaison between project managers from both organisations/possible joint reporting</p> <p>Clear lines of responsibility</p> <p>To be mitigated through Heads of Terms and robust variation clauses</p>
<p>Budget uncertainty</p> <p>If SBC fix a price for the core and shell then we bear that risk</p> <p>Increase in budget due to unforeseen costs (build cost inflation)</p>	<p>Ensure the appropriate level of contingency is added.</p> <p>Tight fiscal control through design and build contract.</p>
<p>Delay and project slippage for the health and wellbeing centre and the remainder of the mixed-use development and potential loss of the centre altogether</p>	<p>Tight project management</p> <p>NHS England will have strict deadlines as a condition of funding which will have to be met</p>
<p>Letting of the residential element of the mixed-use scheme</p>	<p>Viability appraisal has been undertaken on realistic assumptions for rental income</p> <p>Work with housing team to ensure there are sufficient tenants to rent the accommodation</p> <p>Work with Knowle Green Estates Ltd</p>
<p>Lack of governance throughout the project (monitoring of deliverables, outcomes and budget monitoring)</p>	<p>The project will be subject to governance sign off and approval by the Development Sub-Committee as per the agreed terms of reference</p> <p>The NHS will have rigid project gateway sign off in order to meet the NHS England funding conditions</p>

Equality and Diversity

- 5.14 The new facility which the Council will deliver (built to shell and core and fit out) for the CCG and NHS will aim to, in their words, 'provide a modern, integrated, accessible hub for population health management to address inequalities in health and social care'.
- 5.15 Similarly, the Council elements of the wider regeneration scheme will meet all the access requirements both for the public element of the scheme (particularly in respect of the proposed theatre space and the cultural workshops) as well as for the residential. Where feasible, the Council will look to provide a number of residential units specially designed at the outset to meet the needs of residents on the housing register who have very specific needs and requirements. KGE has in place a range of tenant sustainment, safeguarding etc policies.

Sustainability/Climate Change Implications

- 5.16 The new facility which the Council will deliver (built to shell and core and possibly fit out) for the CCG and NHS will aim to deliver, in their words, 'a safe, healthy and sustainable environment that will deliver NHS and public expectations of net zero carbon targets'.
- 5.17 The Council element of the wider regeneration scheme has the ambition to be zero carbon, and we will be looking to apply the principles of Passivhaus (highly insulated), use renewable energy and green roofs and provide ventilation with heat recovery. Recent research funded by the Engineering and Physical Science Research Council indicates that high rise *office* buildings of 20 storeys or more have higher energy usage per square metre and emit twice as much carbon as lower rise structures. The maximum height of the Council's residential blocks, at 14 storeys, are well below this figure and therefore these environmental impacts are not relevant.

6 Timetable for implementation

- 6.1 Please see **Appendix G** at the end of this report

Background papers: There are none.

Appendices:

Appendix A - Acquisition background **confidential**

Appendix B – Knowle Green Estates Ltd

Appendix C – Three options for residential development

Appendix D – Three options – key financial information **confidential**

Appendix E – Term sheet **confidential**

Appendix F – KGE rental viability **confidential**

Appendix G - Timelines