

# Development Sub Committee

5 April 2022



<b>Title</b>	<b>Oast House, Kingston Road, Staines – Design Revisions &amp; Viability</b>
<b>Purpose of the report</b>	To make a decision
<b>Report Author</b>	Richard Mortimer (Development Advisor)
<b>Exempt</b>	No
<b>Reason for Exemption</b>	N/A
<b>Corporate Priority</b>	Community, Affordable Housing, Environment.
<b>Recommendations</b>	<p>Development Sub Committee (DSC) are asked to:</p> <ol style="list-style-type: none"><li>1. Refer the decision on the Oast House development to Council under the Council’s referral scheme.</li></ol> <p>Full Council are asked to:</p> <ol style="list-style-type: none"><li>2. Approve a mixed-use scheme for the Oast House site with revised maximum residential heights of 12+10+9 storeys on the two rear blocks. The remaining block heights are 4,3 and 2 storeys towards the site boundary where it adjoins existing residential properties.</li><li>3. Approve NHS Heartlands proposed community health and wellbeing centre provision as part of the above mixed-use development.</li><li>4. Delegate to Chair of the Development Sub Committee in consultation with the Deputy Chief Executive Officer and S151 Officer authority to approve final terms and enter into a binding Collaboration Agreement with NHS Surrey Heartlands Healthcare. This is to facilitate the submission and determination of a planning application for a mixed-use scheme comprising residential, healthcare and other uses including the restoration of a Listed building. Thereafter a Development Agreement will be required to facilitate the delivery of the health and wellbeing centre requiring both DSC and NHS approval.</li></ol>

<b>Reason for Recommendations</b>	<ol style="list-style-type: none"><li>1. Continued delays in moving forward with the development of this site risks losing the investment of up to £37m in a new NHS health and wellbeing centre in Staines. The health centre (primary and secondary care) is a unique opportunity for Staines to secure new higher quality modern infrastructure to meet residents current and future health needs.</li><li>2. This NHS project is only one of 6 pilot projects being undertaken nationwide. However, the NHS are working to tight timescales that assumes a planning application is submitted in October 2022. Continual scheme delays are impinging on progress with design development. Unless a decision is made this month regarding the overall scheme, there is a significant risk this investment will be redirected elsewhere nationally.</li><li>3. The current revised proposal is the absolute minimum required to maintain a financially viable scheme that represents value for money. This is in line with previous DSC and Council declarations, namely that the Council must at least have a financially break-even scheme that does not burden Spelthorne's taxpayers for decades with subsidising the development, either directly or indirectly through community service cuts.</li><li>4. The moratorium on council owned schemes and the subsequent delay has seen holding costs accrue and build costs increase exponentially. This has directly resulted in this scheme incurring holding costs of £47,500 per month, though this is dwarfed by the increase in build costs of £13m so far directly attributable to the delays caused by the moratorium. Further delays exacerbate the ability to secure a financially viable scheme as increased labour, materials and fuel costs bite.</li><li>5. The revised scheme brings forward a unique offering for the town, namely 182 new homes available at affordable rents for local people on our housing waiting list. This is significantly lower than the 350 planned for the site when Cabinet approved the site acquisition in March 2019 for a price of £19.5m</li><li>6. At 193 dwellings per hectare, this density of housing is considerably lower than any commercial developer would propose (nearby commercial schemes are roughly double the proposed density). Any further reduction in the density of the development makes the scheme become unviable.</li><li>7. The maximum height of the scheme's larger rear blocks are 12 + 10 + 9 storeys. The revised scheme is marginally viable. To continue delaying the scheme will ultimately increase pressure on viability rendering this proposal financially unviable unless additional density (height) is added to mitigate these impacts.</li></ol>
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## 1. **Background**

- 1.1 On 27 March 2019, Cabinet were presented with a paper that proposed a potential residential scheme for 350 in order to support the proposed purchase price of this site. This was the basis upon which approval was granted. The site purchase was completed in October 2019.
- 1.2 Design team appointments were concluded in December 2019 and feasibility works commenced in mid-December 2019. However, progress was frustrated three months later due to the unforeseen events of Covid 19. This led to the Local Planning Authority (LPA) being unavailable for physical meetings between late March 2020 to September 2020 however limited progress was made using virtual technology. During this period, there was also a change in political leadership which resulted in further delays in obtaining buy-in to proposals/progress whilst the new Administration considered its strategic ambitions.
- 1.3 In December 2020, the Council sought to impose a moratorium on all developments in Staines. It is notable that this moratorium was not enforceable against third-party developers and ended up only affecting council owned developments. This remained in place until the end of 2021.
- 1.4 Officers had also advised Council during 2020, that any delays to projects would lead schemes incurring unnecessary significant construction cost increases due to the impacts of Brexit, loss of construction labour and evolving Covid 19 working practices which have extended programme durations. It is now evident that these delays such as the moratorium have cost this project alone approximately £13m in increased capital costs making its viability very marginal. The holding costs continue to run at approximately £47,500 per month.
- 1.5 Since July 2021, NHS Surrey Healthcare have expressed interest in investing in a new healthcare facility on part of the site. This will be one of six pilot projects that are to be rolled out nationally. Not only is this likely to provide a significant investment up to £37m in the regeneration of Staines Town Centre, it also helps in front loading and expanding much needed locally available healthcare facilities to support future housing development and meet the wider needs of the Borough's growing population.
- 1.6 The Council's Assets Team have been in consultation with Staines ward councillors during the last quarter of 2021 in order to refine the mixed-use elements of the scheme with a particular focus on the heights of the residential blocks towards the rear of the site. Whilst the preference of ward councillors has been for a scheme offering optimal heights of 9 storeys, it results in the inevitable consequence of making the entire mixed-use development financially unviable. In the event that a reduced height scheme is approved, the likely negative impact will be borne by future council taxpayers.
- 1.7 At Full Council meeting on 10 March 2022, the 14 +8 storey residential element that was recommended for approval by Development Sub-Committee

was rejected, two directives were that any scheme brought forward needed to address heights and importantly needed to be financially viable. The revised scheme being proposed responds to these directives.

## 2. Planning Considerations

- 2.1 It is worth reminding Councillors what densities are being achieved on other sites, some are in the immediate vicinity –

<b>Scheme</b>	<b>No Of Apartments</b>	<b>Density Per Hectare</b>	<b>Planning Status</b>
Eden Grove, Fairfield Ave/London Rd	489 apartments (14 storeys)	491 (14 storeys)	Granted
London Square	302 apartments (12 storeys)	320 (12 storeys)	Granted
Renshaw Industrial Estate	397 apartments (13 storeys)	370 (13 storeys)	LPA recommended for approval. Rejected.
Inland Homes, Thames St	206 apartments (15 storeys)	389 (15 storeys)	Granted at Appeal
Oast House, Kingston Road	182 apartments proposed + Healthcare	193 (12+10+9 maximum storeys). Revised Scheme	Pre-Planning Submission

- 2.2 It should be noted that the minimum density being proposed by officers to ensure the site remains financially viable is 298 dwellings per hectare less than Eden Grove which is within a minute's walking distance and 127 dwellings less than the Charter Square scheme. Furthermore, the revised scheme sits comfortably around the proposed zoning limits for density per hectare (dph) set in the Staines Development Framework proposals for 180 units and healthcare facilities.
- 2.3 If a private developer were looking to develop the Oast House site, these are the densities they would be using as a precedent to justify a scheme in the order of 350 units.
- 2.4 The moratorium also exacerbated delays in the LPA's ability to meet its Housing Delivery Targets. Failure to bring forward the Council's own sites has also contributed to the LPA delivering only 50% of its target as reported in 2021. This has reinforced the presumption in favour of development and the "tilted balance" case for developers to bring forward more ambitious (higher density) schemes. If the LPA were able to maintain +75% of their target then they would have greater control over the quantum and quality of future housing delivery schemes rather than decisions being taken out of their hands and determined by the Planning Inspectorate. The Inland Homes decision is a

clear example of what happens when political intervention frustrates housing targets. A Planning Inspector may also view the moratorium and continual rejection of LPA supported major schemes by the Planning Committee on weak grounds as the Council taking a “nimby” stance towards development.

- 2.5 The Oast House site provides a unique opportunity to not only front load much needed healthcare facilities but also deliver a substantial quantum of affordable housing for local people and reduce our ever-increasing Housing Register. It can also be seen that the revised heights respond to Councillor concerns and would be much lower than a private developer seeking to maximise profits.

### **3 NHS Surrey Healthcare – Proposition**

- 3.1 In July 2021, the DSC authorised the Group Head for Regeneration and Growth to engage with the NHS Estates team regarding the provision of a new healthcare (primary and secondary care) facility in Staines. Several options were considered and their preferred options were the Spelthorne Leisure Centre site and the Oast House.
- 3.2 For obvious reasons, the leisure centre site was not a viable option and the surplus land where the nursery is located is subject to a lease until June 2025. Also, their spatial and layout requirements would most likely result in an overdevelopment of the site. Therefore, initial designs have been tested at the Oast House site in collaboration with their technical team and a deliverable scheme can be achieved subject to planning.
- 3.3 After several months of engagement, the NHS Outline Business Case has been approved by NHS England to progress the project. Full Business Case approval will be granted once planning permission has been secured.
- 3.4 As stated, this project is one of six pilot projects being rolled out nationally and represents a one-off opportunity for Staines to benefit from this new state of the art facilities. However, time is of the essence for the NHS in terms of getting these new centres built. The NHS have provided a **Statement of Intent (Appendix 1)** and a **Staines Health & Well Being Centre Briefing at Appendix 2)** which also **includes a schedule of accommodation.**
- 3.5 As a statement of their intent, the NHS have committed £250,000 towards the design fees to enable the project to be progressed up to planning submission. This payment was made in late March 2022. This assumes that design development starts in mid-April and a planning application is submitted by October 2022 with a construction start at the earliest possible opportunity next year. However, this is at risk if Council cannot agree a viable scheme for the entire site.
- 3.6 Both parties have agreed that it is in their mutual interests to enter into a Collaboration Agreement which aligns their respective interests in progressing the entire mixed use scheme proposals up to planning permission. A key NHS requirement is that the programme provides for the submission of the planning application by October 2022. This necessitates the need for a viable scheme for the entire site to be agreed by Council no later than 27 April 2022 so work can start being progressed.

- 3.7 The Collaboration Agreement will also include for the release of further funds by agreement between the parties to cover detailed design fees should they decide it is commercially advantageous to progress this concurrently with the planning determination period. Given the cost of time (£47,500 per month) and the current rate of build cost inflation this may be prudent.
- 3.8 Once planning permission has been obtained, the NHS will be able to submit their Full Business Case for approval. This is expected to take around 8-10 weeks. During this period, pre-commencement conditions will start to be discharged and the Development Agreement will be entered into for the delivery of their building subject to final NHS and DSC/Council approval. The final contract sum and appointment of a main contractor will also take place at this point thereby locking down our financial exposure to the project. Demolition and construction will start thereafter with practical completion anticipated in 2025.
- 3.9 The scheme will be subject to NHS and Council/KGE financial viability and approval of construction budgets for the entire mixed-use scheme.

#### 4. **Design Considerations**

- 4.1 This report primarily focuses on the residential part of the scheme proposals as this is the area which has been of greatest interest to members. However, the layout and configuration of the blocks has been defined by several factors which have informed the various iterations which have been shared with councillors.
- 4.2 Firstly, the NHS have specific standardised requirements which dictate the layout and configuration in order to meet their technical specifications. Secondly, there are site constraints which need to be taken into account such as privacy/adjacency distances, daylighting/sunlighting, amenity provision, site legibility and maximising useable public realm. For these reasons, only 2-4 storey development occupies adjacencies towards the boundary with Florida Court and homes on Kingston Road. Therefore, increased massing has been placed (in consultation with the LPA) in locations to the rear of the site which have minimal impact on nearby dwellings.
- 4.3 Deliveries, fire services, disabled parking and waste collection services need access to the buildings at the rear of the site as well as turning space. Furthermore, there are minimum highways standards/distances between junctions so the "street's" location within the site is informed by this and the NHS buildings footprint.
- 4.4 Parking is proposed in a multi-storey car park over part of the Elmsleigh Surface Car Park that sits between the intersection of the two rail tracks. The NHS require 118 spaces and the residential is expected to require 128 spaces. This is the most economic way of delivering parking on an under-utilised site that is already allocated for Thameside House parking at ground level. Traffic impacts can be managed on the network as marginal peak hour increases are anticipated. Healthcare tends to have visitors throughout the day and the residential is located in a highly sustainable location. Also, with remote working and online shopping trends set to increase peak hour impacts on the highway network are anticipated to be very marginal. This will be

addressed in the formal Transport Assessment that needs to be submitted as part of a future planning application.

## **5. Options analysis and proposals**

Several options have been considered and discussed with the Development Sub Committee and with Staines ward Councillors.

### **5.1 Option 1 - Revised Scheme 12+ 10 storeys (Preferred Option) financially viable for Council and KGE**

This revised option follows a similar footprint to other previous options and comprises lower elements of 2-4 storeys where the site adjoins existing residential properties to mitigate the impacts on adjacent residences. The taller parts between 10-12 storeys are located at the rear of the site in the least sensitive locations. This adjustment provides this option with a total 182 apartments of which 143 are 2 beds and 39 are 1 bed units. The 2 bed apartments represent 79% of the total which is designed to align with our Housing Team's greatest need. The ground floor comprises 6,690sqft commercial/workspace accommodation. **See illustrations at Appendix 3&4.**

As Council will be aware, the Listed building did not get awarded grant funding by the Arts Council for a theatre/cultural offer. Therefore, this element has been ring-fenced whilst alternative funding options are considered.

The benefit of this option is that the residential blocks positively respond to Council's request for a reduction in height **and** for the scheme to remain financially viable. Without the entire scheme being viable, the NHS scheme cannot be delivered.

### **5.2 Option 2 - Rejected Scheme (14+8 storeys)**

By comparison to the revised 12 storey option, and as a reminder to Council, the rejected 181-unit scheme had the same composition of apartments but one less two bedroom unit. However, its built form comprised the higher 14 storey element that wasn't accepted by Council. This option was financially viable.

### **5.3 Option 3 - 10 storey Option**

This was a variation requested by Staines councillors. However, not only was it unviable, it is not supported by the LPA due to its incongruous bulk and massing. Therefore, this option has not been progressed.

### **5.4 Option 4 - 10 + 8 Storey Option**

This option was also requested by Staines councillors. It comprises 149 apartments with ground floor commercial uses. Whilst it seeks to mitigate the issues with bulk and massing of the 10 storey option by providing additional articulation by stepping down to 8 storeys, it exacerbates financial losses. Therefore, this option has not been progressed.

### **5.5 Option 5 - Site Sale**

There are many reasons that make this an unattractive option. Firstly, there would be redemption penalties to pay if the PWLB loan was terminated. Secondly, there are approximately £1.2m of costs that would need to be

written off. These are currently capitalised and would provide a significant hit on the Revenue account if the site were sold.

A site sale would give a 3<sup>rd</sup> party developer the opportunity to pursue a scheme closer to 350 units and would most likely succeed in achieving this higher density at appeal due to the Council's continual failure to meet Housing Delivery Targets. As stated, the moratorium has done nothing to indicate Council has any commitment to achieving these targets and this approach to major brownfield sites may be portraying a nimby attitude. Therefore, a Planning Inspector is unlikely to take a sympathetic line given the current presumption in favour of sustainable development and "tilted balance" approach to applications. Most importantly, a private developer would prioritise maximising profits and the unique opportunity to deliver the healthcare facility would be lost.

#### 5.6 **Option 6 - Do Nothing Option**

Doing nothing will result in the Council continuing to incur monthly holding costs of £47,500pcm indefinitely. Also, any future scheme would incur increased build cost inflation as a consequence of deferring a decision to progress the scheme. In addition, costs to date would need to be written off to Revenue which provides a significant hit and may affect service provision.

Most importantly, from a community infrastructure perspective, doing nothing would result in the loss of the NHS healthcare provision and its investment in Staines town centre.

## 6 **Construction Market & Phasing**

- 6.1 Construction costs have been subject to unprecedented levels of price inflation and market volatility. **Appendix 5** illustrates current market inflation forecasts. These figures exclude increased fuel costs and impacts of the Russia/Ukraine conflict which is also affecting materials availability. Ultimately, this is a conservative picture of the market.
- 6.2 Members will also be aware from recent papers that the leisure centre costs have increased 15% and Ashford Victory Place by 17% despite robust negotiations by the Assets Team. All the Council's projects are subject to similar inflationary pressures and the Council's ability to be decisive will be a mitigating factor in how great this liability will be. The Assets Team are currently investigating the potential for offsite fabrication for some schemes in order to expedite quicker delivery times allowing for earlier fixing of prices, lower labour demands and increased programme certainty. This also will help support our ambitions towards the delivery of net zero carbon buildings. However, in isolation this will not be sufficient to mitigate cost pressures unless informed timely decisions are made by Council to allow these schemes to be progressed.
- 6.3 In terms of **phasing options**, both a single and two phased approach has been considered to explore if the healthcare centre could be delivered in isolation. However, there are good reasons why a two phased approach is **not** viable –
  - a. This would extend the programme resulting in the deferral of much needed housing at affordable rents. It would also delay the income stream flowing

from the development which can be used to support a wide range of services within the council.

- b. Part of the residential forms the upper parts of the healthcare premises. Therefore, it is not possible to build this part without delivering the residential too.
- c. There would be an unnecessary doubling up in main contractor prelims which adds costs undermining financial viability. Therefore, higher densities would be required to mitigate these costs.
- d. The project would incur increased and unnecessary construction cost inflation due to prolongation. This would make the development scheme unviable or as above require additional density to offset additional costs.
- e. A two phased development and its longer programme would also lead to prolonged construction disruption to local residents and the new healthcare facility. It may also complicate and delay the delivery of any S106/278 obligations as well as public realm connectivity to the Elmsleigh Car Park and the town centre.
- f. Logistics, health and safety risks would also increase with a two phased scheme. It would also result in the need for increased “just in time” deliveries thereby increasing traffic flows in/out of the site resulting in increased costs too.

The Listed Building, which will be a conversion is the only element which could be delivered as a single phase as most of the works would be internal.

## 7 Financial implications

- 7.1 Officers have been advising Councillors about forecast price increases for over 18 months and the risks of delaying the Council’s development schemes. The table below sets out the key viability metrics for two options discussed with councillors and a new 12+10 storey option -

<b>Scheme</b>	<b>NHS, 12+10 storeys residential</b>	<b>NHS, 10 storeys residential</b>	<b>NHS, 10+8 storeys residential</b>
Units	182	171	149
Gross Value	£116.65m	£109.9m	£101.4m
Costs	£115.8m	£112.9m	£105.3m
Viable yes/no for KGE (ie will be able to sustain the loan repayments to the Council)	<b>Yes (100% AH) although this leads to a 7% p.a. shortfall in revenue income for the Council, over the next 50 years, this will not impact on our service delivery.</b>	<b>No (100% AH) as this leads to an 18% p.a. shortfall in revenue income for the Council, over the next 50 years, and will mean that services will need to be cut.</b>	<b>No (100% AH) as this leads to a 27% p.a. shortfall in revenue income for the Council over the next 50 years and will mean that services will need to be cut.</b>

AH = Affordable Housing

- 7.2 Any increase in costs will be passed on to Knowle Green Estates Ltd (KGE). As future transactions from SBC to KGE will be based on cost rather than value, the Council will not be ultimately exposed to a valuation shortfall risk. However, due to the increase in build costs the cost of debt is likely to be higher to KGE which makes it more challenging for any scheme to be viable. This transaction is also subject to formal approval by the KGE Board.
- 7.3 A KGE Viability Statement is attached which demonstrates the scheme still remains viable at 12 +10 + 9 storeys. **(See Appendix 6).**

## **8 Procurement**

- 8.1 Soft market testing has been undertaken with our Procurement team. It is evident that the earlier we can get design detail developed and start engaging with contractors the greater the prospects of mitigating construction cost inflation.
- 8.2 A formal procurement process for the construction tender will not be undertaken until the team are closer to submitting a planning application. A commercial decision will then need to be made in collaboration with the Development-Sub Committee and Council around the timing when an appointment should be made.

## **9 Risks**

- 9.1 To summarise, key risks to the development of this site are -
- a. Further delay in Council approving a financially viable scheme option risks the loss of the NHS facility. This provides a unique opportunity to front load healthcare infrastructure in Staines town centre.
  - b. Further delay will result in increased holding costs which run at £47,500 per month.
  - c. Further delay will result in the scheme being subjected to unnecessary build cost inflation that is currently running at unprecedented levels. The only way to potentially mitigate these impacts is to increase height and density.
  - d. The construction market is also facing labour shortages and this situation is likely to worsen before it gets better. This will impact on programme certainty and could result in delays to our project. Again, the earlier Council makes a commitment to a viable scheme the earlier the Assets Team can start engaging with contractors to place early orders, source materials and secure scarce labour resources. This is a complex project in normal market conditions and Council needs to be decisive in order to mitigate these impacts.
  - e. Continuing delay means the deferral of much needed homes being available at affordable rents to local people. Housing delivery aligns with the Council's Affordable Housing corporate priority. This is against a backdrop of increasing numbers of applicants on our Housing Register.

f. The provision of this innovative healthcare provision is dependent upon receipt of funding from NHS England. This funding is itself dependant on the Council meeting NHS critical path project deadlines. Delay in Council approving a viable scheme will negatively impact on the Council's ability to meet these deadlines.

## **10 Sustainability/Climate Change Implications**

- 10.1 The scheme will target Breeam Excellent for the NHS part and net carbon zero for the residential. This compares to the Council's own policy requirement of 10% above Part L of the Building Regulations for energy efficiency.

## **11 Timetable -**

Development Sub Committee Presentation – 5 April 2022

Full Council Decision – 28 April 2022

Knowle Green Estates Board - 18 May 2022

Target Planning Submission – October 2022

Target Planning Determination – February 2023

Demolition – April 2023

Main Build Mobilisation – Late July 2023

Main Build Works Commence – Mid August 2023

Forecast Practical Completion – End July 2025

## **12 Legal Comments**

- 12.1 It is confirmed that the proposed referral of this item to Council complies with Part 4(b), para 1(a) of the Council's constitution.
- 12.2 It is confirmed that the preferred recommendation complies with the Council's Best Value duty with regard to the disposal of land.
- 12.3 In the event that Council approves a scheme for mixed uses at the Oast House site, Legal Officers will assist the Development Manager finalise terms for the Collaboration Agreement and ensure its execution in accordance with Council instructions.
- 12.4 Careful legal advice will also be provided throughout the development to ensure the scheme and any leases comply with the various statutory requirements including Public Contracts Regulations 2015 and whether an approval from the Secretary of State would be required for the disposal of land associated with the community health and wellbeing centre.

### **Background papers:**

Appendix 1	NHS Statement of Intent
Appendix 2	NHS-Staines Health/Well Being Centre Briefing
Appendix 3	BPA Revised Scheme (12+10+9 Storeys)
Appendix 4	BPA Revised Site Layout Plan
Appendix 5	Materials Price Inflation Indicator 2021. (J.Sisk Ltd)
Appendix 6	KGE Viability

