

Ward(s) affected: Stoke

Report of Strategy Director and Resources Director

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Weyside Urban Village Development

Executive Summary

Weyside Urban Village (formerly The Slyfield Area Regeneration Programme) is a major 41-hectare brownfield regeneration scheme that Guildford Borough Council (the Council) anticipates could deliver 1,500 homes across a range of tenures as well as 2,000 square metres of community space and 6,500 square metres of employment space. As such, Government has designated it as one of its national Housing Zones.

The Council has been working for over 15 years to de-risk the infrastructure delivery and site assembly process. Over 44 per cent of the site is currently in Council ownership, and 100 per cent will be achieved on completion of land transfers with Thames Water. The conditional contract with Thames Water was signed on 25 April 2019.

Housing is of great significance to the Borough and forms a major theme to the Adopted Local Plan. There is an ongoing shortage of affordable housing, particularly for first time buyers which in turn contributes to a skill shortage in the Borough.

Through this report, the Council is asked to approve a capital budget of £359.504 million to enable the infrastructure phase of Weyside Urban Village Project (formerly known as the Slyfield Area Regeneration Programme (SARP)) development to be carried out. The Council has been awarded a £52.3 million grant from the Housing Infrastructure Fund (HIF).

An EM3 Local Enterprise Partnership (LEP) grant of £7.5 million has also been awarded.

Recommendation to Executive:

That the Managing Director be authorised, in consultation with the Leader of the Council, to sign and complete the Grant Agreement with Homes England to implement the infrastructure works and draw down the grant expenditure.

Recommendation to Council:

The Executive is asked to recommend to the Council

- (1) That an additional capital supplementary estimate of £274.057 million be approved to allow a total capital budget of £359.504 million to enable the Council to deliver the infrastructure phase of this scheme.
- (2) That £5.781 million of the additional capital budget be placed on the approved capital programme to progress the allotment relocation and funding of the Thames Water agreement costs during 2019-20.
- (3) That the Council acts as Infrastructure Developer until completion of the Thames Water Infrastructure in 2026.

Reasons for Recommendation:

The reasons for recommendation cover financial, economic and social benefits.

The budget will enable the Council to deliver the infrastructure for the development ensuring deliverability and control.

The land value will be increased by the infrastructure phase being delivered upfront and ahead of Land Parcel Sales.

The project will also deliver:

- 1500 new homes including 600 Affordable Homes
- 2000 square metres of community space
- 6500 square metres of employment space
- A new relocated “fit for purpose” Thames Water Sewage Treatment Works
- Extensive infrastructure improvements
- This scheme contributes to the delivery of the adopted Local Plan
- This scheme contributes £233 million in economic impacts for Guildford

The project has significant infrastructure to be put in place to enable the above critical success factors to be delivered. Allocating a capital budget of £317.355 million will enable all of the infrastructure phase to be delivered and will de-risk the site in readiness for the next stage to facilitate the delivery of homes.

1. Purpose of Report

- 1.1 The purpose of the report is to update the Council on the progress of the Weyside Urban Village Project (formerly known as the Slyfield Area Regeneration Programme (SARP)), and to request the Council to provisionally approve a capital budget to enable the Council to act as Infrastructure Developer and deliver the infrastructure phase of the project.

- 1.2 The approved budget will enable the Council to deliver the full infrastructure phase of the development. By providing the infrastructure phase, the site will become de-risked in terms of design, primary infrastructure and remediation.
- 1.3 The Council may exit the development project in 2026 upon completion of the Infrastructure and this will be continually reviewed in line with market conditions.

2. Strategic Priorities

- 2.1 The delivery of this project will have a positive impact on the supply of housing and employment land in the Borough and regenerate the Slyfield landfill site.
- 2.2 The recommendations support the delivery of the following priority from the Corporate Plan 2018-2023 (p. 7):
 - Delivering the Local Plan and providing the range of housing that people need, particularly affordable homes.
- 2.3 As a specific action, to start delivery of the Slyfield Area Regeneration Plan by 2021 (p. 15).

3. Background

- 3.1 The Weyside Urban Village Programme is a major 41-hectare brownfield regeneration scheme that Guildford Borough Council (the Council) anticipates could deliver 1,500 homes across a range of tenures as well as 2,000 square metres of community space and 6,500 square metres of employment space. As such, Government has designated it as one of its national Housing Zones.
- 3.2 The Council has been working for over 15 years to de-risk the infrastructure delivery and site assembly process. Over 44 per cent of the site is currently in Council ownership, and 100 per cent will be achieved on completion of land transfers with Thames Water. The conditional agreement with Thames Water (TW) was signed on 25 April 2019, which sets out the responsibilities, mechanisms' governance and risks to both parties in delivering the new sewage treatment works. The agreement is conditional upon planning consent, environmental ground conditions and financial approval from the Council.
- 3.3 Housing is of great significance to the Borough and forms a major theme to the Adopted Local Plan. There is an ongoing shortage of affordable housing, particularly for first time buyers which in turn contributes to a skill shortage in the Borough.
- 3.4 On 7 March 2019 the Executive approved £10 million to be transferred from provisional to the approved capital programme to facilitate 50 per cent of Thames Water costs as well as any future spend covering Thames Water legal, professional fees and design costs leading to the submission of the planning application for the STW that will have a positive impact on the supply of housing and employment land in the Borough and regenerate the Slyfield landfill site.

4. Funding bids and full business case

- 4.1 The Council, with Surrey County Council as lead authority has been awarded a £52.3 million grant from the Homes England Housing Infrastructure Fund (HIF). It is targeted to complete the legal agreement by the end of March 2020, with the Council taking a direct role in the agreement with Homes England. The Council will be responsible for any project cost overruns. Any financial surplus will be reinvested by the Council into housing or infrastructure to unlock housing in the Borough
- 4.2 The Council has also been awarded a £7.5 million grant from EM3 Local Enterprise Partnership and has completed the legal agreement.
- 4.3 The project infrastructure for the development is set out below and includes the construction of the Internal Estate Road, which is currently on site with completion planned for end January 2020. Nominal costs for the Infrastructure phase contained in the original HIF bid, which was submitted in January 2019, have been reviewed and updated to reflect the latest information available. As a result, the revised nominal costs, at current prices, are now listed below:

	HIF Bid	Current Cost	Variance
	£m	£m	£m
Thames Water Relocation	111.0	114.2	+3.2
New GBC Depot	22.0	22.0	0.0
Allotment Relocation	0.3	1.3	+1.0
Internal Estate Road	9.1	9.1	0.0
Internal Roads, Site Clearance & Decontamination	40.5	40.5	0.0
Off-Site Highways	20.0	20.0	0.0
Utilities & Plot Services	13.6	13.6	0.0
Statutory Payments	17.9	17.9	0.0
Planning Application Costs	2.9	2.9	0.0
Development Management Fee	9.3	9.3	0.0
Commercial Development Cost	19.6	19.7	+0.1
Borrowing Costs	17.8	30.8	+13.0
Prior Year Spend	0.0	5.5	+5.5
	284.0	306.8	+22.8

- 4.4 The main reasons for the variances against the original HIF bid are as follows:
- Thames Water Relocation Costs now include pre contract costs of approximately £3.2m which were previously omitted from the HIF bid.
 - The Allotment relocation sub-project now includes the cost of re-providing the new allotment facilities, compared to the original HIF bid, which only included the cost of purchasing the land.
 - Borrowing costs have increased partly due to the re-phasing of the infrastructure delivery programme, but mainly due to an increase in PWLB borrowing rates, which Central Government implemented in October 2019.
 - The HIF bid was based on project costs incurred from April 2019/20, and therefore prior year spend of approximately £5.5m was excluded from the bid.
- 4.5 The total infrastructure cost (including £111 million for the Sewage Treatment Works) amount to £359.504 million in real terms. These costs includes the anticipated impact of inflation and financing costs which need to be taken into account for budgeting purposes for a project that spans a large number of financial years. Please refer to table of infrastructure costs in real terms in Appendix 1.
- 4.6 Funding bids have been based on a business case produced in line with the HM Treasury Green Book. The business case proposes that the Council will act as the Infrastructure Developer and invest in the Weyside Urban Village Programme.
- 4.7 The full business case for the project is set out in the restricted background paper, in line with the HM Treasury Green book, as follows:
- a. The Strategic Case – which sets out how the project fits with public sector policy at a national, regional and local level. It will set out the case for change.
 - b. The Economic Case – will assess whether the project optimises value for money in relation to the associated costs, benefits, dis-benefits and risks
 - c. The Commercial Case – will assess the market evidence and commercial viability for the project
 - d. The Financial Case – will assess the affordability of the project and sources of funding
 - e. The Management Case – will set out how the project is to be delivered and the governance structures that are required to deliver a project of this scale.

5. Housing Delivery Models

- 5.1 The recommendations within this report propose that the Council acts as Infrastructure Developer until completion of the Thames Water Infrastructure in 2026. After that point, the council may choose to exit the development or be more

actively involved in the future housing delivery, having duly considered the relevant market conditions.

- 5.2 The options available to the Council with regard to how the future housing will be delivered on the site will be considered at a future decision meeting, however the following delivery options are likely to include the following:

Tranche Sales	The disposal of large sections of the site to housing developers once planning permission is obtained
Plot Sales	The Council delivers smaller, completed and serviced plots for disposal to housebuilders and developers
Joint Venture	The Council partners with a house builder/developer to deliver the housing, sharing the risks and returns on a pre-agreed basis.
Land Sale Delivery Partnership	Similar to Plot Sales, although the Council appoint an external developer partner to do the master planning, and serviced plots are subsequently sold.
Direct Delivery	The housing is delivered either by the Council directly or through a Council owned company.

- 5.3 The Council will continually monitor market conditions and review the business case on an annual basis and keep key stakeholders updated.

6. Consultations

- 6.1 The Leader, the Lead Councillor for Major Projects and the Lead Councillor for Governance are fully briefed on the project. Presentations at key points in the project have been made to Executive Councillors, Governance Board and Corporate Management Team.

- 6.2 The SARP Councillor Forum has been updated on the outline of the project, but not the detail for confidentiality reasons

7. Equality and Diversity Implications

- 7.1 Equality and Diversity implications will be addressed in accordance with the project Equality Impact Assessment.

8. Financial and Taxation Implications

- 8.1 Full Council approved a total capital budget for Weyside Urban Village (shown as Slyfield Area Regeneration Project within the budget) of £74.308 million at its meeting on the 26 February 2019. The total capital budget is split between the approved capital and provisional programme. Following the Executive meeting in

March 2019, the approved capital programme budget is currently £15.225million and the provisional capital programme budget is £59.083million.

- 8.2 The Council's capital programme also includes a separate approved capital budget for the Internal Estate Road of £11.139 million. Although this is shown as a separate project in the capital programme it is part of the overall Weyside Urban Village Programme of projects.
- 8.3 The Executive is asked to recommend to the Council that a further provisional capital budget of £274.057 million be approved to allow a total capital budget of £359.504 million, to enable the Council to deliver the infrastructure phase of this scheme.
- 8.4 The anticipated spend profile and reconciliation to existing budget is shown below:

	Prior Years	2019-20	2020-21	2021-22	2022-23	2023-24 and future years	Total Scheme Cost
	£000	£000	£000	£000	£000	£000	£000
Approved Capital Programme-SARP	3,214	5,670	700	5,641	0	0	15,225
Approved Capital Programme – Internal Estate Road	2,292	8,847	0	0	0	0	11,139
Current Provisional Capital Programme - SARP	0	0	0	17,321	41,762	0	59,083
Total Current Capital Budget	5,506	14,517	700	22,962	41,762	0	85,447
Additional Project Budget Requested	0	5,511	16,205	18,601	29,531	167,567	237,415
Financing Costs	0	270	519	652	2,047	33,154	36,642
Total Additional Capital Budget Request (Supplementary Estimate)	0	5,781	16,724	19,253	31,578	200,721	274,057
Total Capital Budget Required	5,506	20,298	17,424	42,215	73,340	200,721	359,504

- 8.5 The gross capital budget is shown in the table above. The budget will be financed as follows:-

	£000
LEP Grant	7,500
Homes England HIF Grant	52,315
Borrowing to be repaid through Land Sales and other capital receipts	298,046
Total income anticipated	357,861
Anticipated Surplus / (Deficit)	(1,643)

- 8.6 The inflation assumptions included within the financial modelling are based on research undertaken by Gleeds with regard to cost inflation, and Price Waterhouse

Coopers, CBRE, Knight Frank and Savills with regard to Value inflation. These inflation assumptions are summarised below:

	2019	2020	2021	2022	2023	2024	2025	2026	2027 onwards
Value Inflation	2.1%	2.9%	3.1%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Cost Inflation	2.8%	2.7%	4.3%	4.4%	3.6%	3.9%	4.0%	3.8%	3.3%

- 8.7 Sensitivity analysis has been undertaken to quantify the impact of potential changes in inflation over the development term and the impact this might have on the forecast surplus/deficit of the project. The outcomes of this sensitivity analysis is shown below:

	Amended Surplus / (Deficit) £000
Existing Base Case	(1,643)
Cost inflation is 1% higher than currently expected	(18,311)
Cost inflation is 1% lower than currently expected	15,025
Value inflation is 1% higher than currently expected	25,492
Value inflation is 1% lower than currently expected	(28,777)

- 8.8 The business case assumes that the interest costs associated with borrowing to fund the project will be 'rolled up' and paid from the capital receipts due on disposal of the land. In addition, it is anticipated that the capital receipts associated with the project will be used to fully repay the Council's borrowing and as a result, applied to reduce the capital financing requirement associated with the project. As a result, officers do not anticipate making any minimum revenue provision (MRP) charge to the Council's general fund to finance the cost of borrowing in relation to this project. The financing strategy aims to minimise and eliminate any financing costs that could be charged to the general fund revenue account as a result of the infrastructure phase of the development.
- 8.9 The Council has undertaken a tax analysis (with its tax advisors PwC) of the project to assess the potential impact of VAT and stamp duty land tax (SDLT) on the project. In addition, the impact on the project in respect of TW's corporate tax liability and capital gains tax position has also been assessed.
- 8.10 SDLT will be payable on the land transfers that occur between Thames Water and Guildford Borough Council. An estimate of the SDLT cost has been included within the business case and financial model based on our best estimate and advice from Thames Water on how they intend to split the payment the Council is making to TW for the new sewage treatment works. The payment needs to be split between a payment for the land and a payment for works to build the new STW. Thames Water have already raised their proposed treatment of the

transaction for tax purposes with HMRC, who have not indicated any concerns with the proposed treatment. However, we have identified a low risk that at some stage in the future, HMRC may challenge the proposed treatment and an increased SDLT liability or corporation tax liability above our current estimate may be payable by TW. Under the terms of the agreement with Thames Water, the Council is responsible for all taxation obligations outside the fixed price. The increased tax risk has been identified, costed and recorded as a project risk but has not currently been included in the business case and financial model. The risk will be managed accordingly as directed by the S151 Officer.

- 8.11 The land on which the development will occur will be 'opted to tax' for VAT purposes by the Council and TW. This will mean that the Council's partial exemption position is protected and the Council will be able to reclaim VAT on its expenditure during the infrastructure phase of the development. It does however mean that VAT will need to be paid by developers who purchase the land for onward development of housing.

9. Legal Implications

- 9.1 Any request for a capital supplementary estimate shall first be submitted to the Executive (Council Constitution, 2019, pp. 4-137), but any supplementary estimate in excess of £500,000 shall require the approval of Full Council.

10. Human Resource Implications

- 10.1 Weyside Urban Village is being led by the Development Manager and supported by the wider project team. The related human resources expenditure is within the approved budgetary provision.

11. Summary of Options

- 11.1 There are two options:

- a. To continue with the regeneration programme and realise the benefits identified in the Corporate Plan 2018-2023 and outlined in the Full Business Case (see restricted Background Paper).
- b. To cease the project retaining the site in its existing state.

- 11.2 Officers strongly recommend Option (a) to continue the scheme as detailed in this report.

12. Conclusion

- 12.1 This regeneration project has major benefit for Guildford by providing a new Sewage Treatment Works, Council Depot, Industrial Units and 1500 homes (40% affordable) by bringing a brownfield site back into use.

13. Background Papers

[Corporate Plan 2018-2023](#)

[Special Meeting, Executive 7 March 2019 - Slyfield Area Regeneration Project EX88](#)

[HM Treasury Green Book Guide](#)

[HIF Application - Full Business Case \(RESTRICTED\)](#)

14. Appendices

Appendix 1: Table of infrastructure costs in real terms (RESTRICTED)

Appendix 2: Updated Financial Business Case (RESTRICTED)