

Guildford Borough Council

Report to:	Resources Overview and Scrutiny Committee
Date:	02 December 2024
Ward(s) affected:	All
Report of:	Strategic Director Economy, Planning & Place
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Lead Executive Member:	Councillor Tom Hunt
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Status:	Partially Exempt
Key decision:	No

Weyside Urban Village: Update on delivery and progress on financial mitigation work

1.0 Executive Summary

1.1 Weyside Urban Village (WUV) is a major brownfield regeneration scheme with the primary purpose of delivering approximately 1,500 new homes across a range of tenures, community facilities, creating c. 6,500m² of new employment space and vastly improving the infrastructure in the local area with upgraded highways, new sewage treatment works, public footpaths and open space.

1.2 The Council is acting as master developer intending to recover the cost of the upfront infrastructure investment from the sale of ten land plots to housing developers. To support this, the Council has been successful in securing grant funding from Homes England and Enterprise M3 Local Enterprise Partnership (LEP) of circa £60m.

1.3 In January 2023 it was reported to the Executive and Full Council that the Weyside Programme had a potential financial deficit at the

programme end. This arose as result of macro-economic factors which had a profound impact on the construction industry and the cost of materials. Coupled with this, the Gilt Markets saw huge increases in yields and subsequently this increased the Public Works Loan Board (PWLB) rates to circa 4.5%.

1.4 At the Executive and Full Council meetings in May 2024 it was reported that the potential deficit had increased again because of further rises in borrowing rates to 5.5% and high inflation, with notable impacts on the Thames Water contract, infrastructure delivery contracts and consultant costs. The reports presented to Full Council are included as Exempt Appendices 1-3 for ease of reference. The Committee should note that the figures in these papers have not been updated since their production earlier this year but the narrative remains of relevance.

1.5 At both meetings, it was agreed that Officers would provide a risk assessed mitigation strategy outlining options to reduce the potential deficit at programme end, and that this would be presented to Council for decision. Approval was also given to continue with the Weyside programme to enable the Council to comply with its statutory agreements and obligations (in particular the Thames Water Utilities Limited agreement) and enter into construction and consultancy contracts to deliver infrastructure in alignment with the Homes England milestones.

1.6 This report provides an update on the progress of the overall Weyside Urban Village scheme, and specifically the ongoing work relating to the financial mitigation options.

2.0 Recommendation to the Committee

That the Resources Overview & Scrutiny Committee resolves to:

2.1 Review this Weyside Urban Village update report and make observations and comments on its content. Specifically, questions or commentary around the ongoing financial mitigation work are welcomed.

3.0 Reasons for Recommendations

3.1 Recognising that the Weyside Urban Village scheme comprises a dominant component of the Council's capital programme and overall borrowing requirements, this report seeks to ensure that the Resources

Overview and Scrutiny Committee has the opportunity to scrutinise delivery progress to date, the key programme risks and mitigation strategies in place.

3.2 The report outlines the ongoing financial mitigation work and options available to the Council to address the identified potential deficit. Feedback from the Committee on the various options being considered is welcomed, noting that a full report for decision on how to proceed will be presented to Full Council in the Spring, following an all Councillor briefing in March/ April.

4.0 Status of Report

4.1 Exempt in part – Appendices 1-3 are exempt from publication.

4.2 The content of Appendices 1 – 3 are to be treated as exempt for the purposes of the Council’s Access to Information Procedure Rules because it contains commercially sensitive information and is therefore exempt by virtue of paragraph 3 of Part 1 of Schedule 12A to the Local Government Act as follows:

- Information relating to the financial or business affairs of any particular person (including the authority holding that information).
 - a) The content is restricted to all councillors.
 - b) The exempt information is not expected to be made public because the information in appendices 1-3 is commercially sensitive.

5.0 Strategic Priorities

5.1 The recommendations in this report align with many of the strategic priorities within the Corporate Plan 2024 – 2034, but of greatest relevance are:

- A resilient and well-managed Council – the annual financial update report presented to Full Council earlier this year identified an increased potential financial deficit in the scheme, which would have a profound impact on the Council’s overall financial position. This report provides an update on what options are being considered to mitigate this.

- Decent and affordable homes – the overall Weyside Urban Village development will deliver c.1,500 new homes, contributing to the borough’s Local Plan housing requirements.
- A more prosperous borough – Weyside Urban Village will deliver employment land within the development.

6.0 Background

6.1 In February 2020 the Council committed £334.9 million to fund the site assembly and upfront infrastructure construction to enable the development of the WUV site, intended to be fully recovered from the sale of ten land plots to housing developers and grant funding secured from Homes England and Enterprise M3 Local Enterprise Partnership.

6.2 Full Council approval was based on financial modelling information demonstrating that the project would at least break even after undertaking activities such as securing planning consents and funding the upfront infrastructure costs.

6.3 The majority of the site is currently in Council ownership, and 100% will be achieved on completion of land transfers with Thames Water Utilities Ltd (“TWUL”). The conditional contract with TWUL was signed on 25 April 2019 (the "TW Agreement") to fund and enable the relocation of the existing sewage treatment works on the Council's former landfill site freeing up the land for development.

6.4 The Council secured £52.3m grant funding from Homes England and signed a Grant Determination Agreement with Homes England in July 2020 to draw down the grant expenditure associated with the implementation of the infrastructure works that are now in progress. EM3 LEP funding of £8m was also awarded. All grant funding will be spent by the end of the 2024/5 financial year.

Update on infrastructure delivery

6.5 The Council, in its role as infrastructure developer for the scheme, is progressing with the substantial infrastructure works required to unlock the site for development. These works are being delivered to programme as follows:

- Allotment relocation – completed.

- New GBC depot - commenced with practical completion planned for March 2026.
- Onsite infrastructure - Infrastructure 2 commenced with completion planned for June 2025.
- Offsite highways - Contract entered into and works commencing January 2025.
- Primary substation - Works commenced with power on scheduled for July 2025.
- Suitable Alternative Natural Greenspace (SANG) - Contractor procured with works due to commence February 2025.
- Internal estate road (phase 2) - Contractor procured with works due to commence March 2025.

6.6 Whilst the Council is not directly delivering the new Thames Water Sewage Treatment works, it is funding the relocation which is instrumental to the completion of the land deal between the two parties and the unlocking of several substantial phases of land for housing. Thames Water are on programme to complete works at the end of 2026.

6.7 The Council is similarly not responsible for delivering the new SCC Waste Transfer Facility. However, work is progressing between the Council and SCC on the transaction required to facilitate this relocation, with SCC Cabinet approval awaited for the business case sign-off and subsequent funding commitment.

6.8 The above infrastructure works are linked to key milestones and housing outputs that form part of the Housing Infrastructure Fund (HIF) Grant Determination Agreement between the Council and Homes England. Non-adherence to these dates and outputs would result in the Council needing to apply to Homes England for a variation of the agreement and for Homes England to approve the variation. This involves the Council submitting a remediation plan including a revised programme, updated financial appraisal/cashflow and evidence to support the delivery of the variation. The result of defaulting on a milestone or output means that while the Council would be in default and negotiating a variation, all grant payments are suspended, and the Council then funds the programme cashflow in the meantime. Homes England are not obliged to accept any variation and special measures can be placed upon the programme and grant agreement in this event.

6.9 The Council has not met its milestone commitments in relation to the selection of a developer to deliver the first phase of housing. As a result, the Council has to provide formal monthly updates to Homes England to report on progress with the Council's decision making around the financial mitigation options, notably land acceleration referenced in para 6.15.

6.10 Alongside infrastructure delivery, the Council is required to meet milestones and outputs in relation to housing delivery. At present, the housing market is challenging, demonstrated by limited or no appetite from residential developers to acquire the land whilst the existing sewage treatment works are still in situ. Whilst this remains the case, the Council is unable to satisfy Homes England on the land disposal and housing delivery strategy requirements. The delay to the land disposal will compound the deficit due to a delay in capital receipts for potentially a further 2-3 years.

Current financial position

6.11 The overall deficit on the Weyside Urban Village project remains as reported to the Executive and Full Council in May 2024.

6.12 The broader economic landscape and its impact on the construction industry over the past two years has been profound. At the end of 2021, the Building Cost Information Service (BCIS) – which provides cost and price data for the UK construction industry - reported that the annual growth in its material cost index reached a forty-year high. Since then, pressures on supply chains have persisted and labour shortages have become more acute. Although the lifting of Covid restrictions led to a return to high activity levels, the war in Ukraine and high rates of inflation have put the construction industry in further turmoil. The impact of these issues is being felt at a local level, with forecast construction costs increasing significantly.

6.13 Whilst most of the increased construction cost can be covered by contingency allowances and increased land values, the increased cost of finance is harder to overcome. The increase in gilt rates and subsequent PWLB borrowing interest rates have created a significant forecast deficit at the project conclusion. As previously mentioned, the intention of the original business case was that the land sales income was to cover the cost of delivering the infrastructure. This is now not the case, and a deficit is predicted at the project end as outlined in Exempt Appendix 2.

Progress on mitigation work to date

6.14 A number of different options are being considered to address the deficit. These are outlined below:

Land Acceleration

6.15 Officers have undertaken a review of alternative delivery models to deliver the first phases of housing at Weyside, recognising the challenging market and subsequent impact of timing on the receipt of land receipts. This has included early disposal of parcels of land to developers, disposal to a registered provider using the same method, and joint venture models with contractors and Registered Providers. Reviews of each of these models have either shown to not be possible or have failed to reduce the deficit at the project end.

6.16 Alternative funding options have also been reviewed including Income Strip lending from financial institutions/ pension funds. The initial findings of the Income Strip option were presented to the Corporate Leadership Team (CLT) and at Executive Briefing.

6.17 It was agreed by CLT that an external review of all options available to the Council was required, including value engineering, land sales in various forms, scope change and finance borrowing options. Subsequently Price Waterhouse Cooper (PwC) were instructed earlier this year.

6.18 The initial report from PwC highlighted that most of the options were being undertaken as part of the project on a day-to-day basis and would therefore not change the quantum of deficit at the project end. The only potential opportunity as outlined in the report, was to look at alternative, more cost effect borrowing strategies.

6.19 The report also gave reference to several financial instruments, and particularly an Income Strip/Credit-tenant lease structure. An income strip is a financing structure in which an investor provides substantial upfront capital in exchange for a long-term, inflation linked rent on an asset. At the end of the funding term (usually 30 - 50 years) the asset would revert to the Council on payment of a nominal sum. This has been identified as a potential mitigation option as it would help to overcome the current challenging land disposal market, caused by higher interest rates affecting the developers' cost of finance and mortgage rates.

6.20 This option was presented to CLT, and a decision was taken to further explore this and test the financial markets to see what would be available to the Council, and to model the results accordingly recognising the opportunities and risks of such a proposition. The work was broken down into a number of phases:

- To undertake further modelling to establish a structure that could be presented to the market. This piece of work is complete.
- To construct an information memorandum to take to the market. This piece of work is complete.
- This phase of work is on hold and no approach to the market has yet been made.

6.21 Given the potential involvement of the Council's Housing Revenue Account in this structure, advice from Savills Affordable Housing team has been sought on the value for money, the feasibility of such a proposition, and the ability of the HRA to invest in Council housing on this development. The outputs of this report are anticipated in the next two weeks.

Treasury Management and discussions with the UK Infrastructure Bank

6.21 A significant amount of work is underway to review and re-baseline the Council's capital programme, recognising that it has previously accounted for projects across directorates that are either not going to be delivered, or are not going to be delivered within the timeframes previously articulated. Both these changes have an impact on the overall borrowing requirement of the Council and subsequent Minimum Revenue Provision requirements that the Council must account for.

6.22 The Council is also having ongoing discussions with the UK Infrastructure Bank (UKIB) to establish whether the borrowing facility available is preferential in comparison to the terms available via the Public Works Loan Board. The UKIB invests in projects that meet its criteria:

- Tackling climate change and driving regional and local economic growth.
- Generating a positive financial return to create an enduring institution.
- Being additional in the market, mobilising private finance.

6.23 Discussions with the UKIB have focused on potential loans to support specific projects within the Weyside programme. These include

the new GBC depot and Thames Water sewage treatment works. At the time of writing this report, the UKIB is offering pricing of gilts +40 basis points (bps) (40bps lower than PWLB certainty rate), with options to fix borrowing rates at financial close or at individual drawdowns.

Reduce the percentage of affordable homes delivered across the site

6.24 At present, the planning consent for the Weyside scheme is predicated on the basis that it will deliver a policy compliant level of affordable homes at 40%. Any variation to this would require a planning application demonstrating that a viability gap exists within the scheme. It is anticipated that this is likely to take a year to complete. Homes England would also need to be notified as the original business case submitted to secure the grant funding outlined the delivery of 40% affordable homes.

6.25 A decision to progress down this route to seek a variation is not required imminently, but the timing of implementing this strategy is important. It is a lever that can only be pulled once and would therefore leave the Council in a position with no other last resort options in the event that there is a further downturn in the market.

Asset sales

6.26 The Council is currently progressing with an asset disposal programme to realise capital receipts as part of the overall financial recovery plan that was approved by Full Council in December 2023. The disposal programme aims to deliver £34m of receipts by March 2026, and a further £16m by March 2028. One mitigation option is for these capital receipts to be ringfenced to fund the construction of the new GBC depot, and in doing so reduce the borrowing requirement of the Council and associated interest payments.

6.27 There are a number of factors that will impact the extent to which these income targets are achieved within the anticipated timescales. This includes the nature of the site being disposed of – for those sites with development potential, it is likely that a purchaser will require a conditional sale, where completion will only be executed upon grant of planning consent. In this instance, it could take 2 years from point of signing a Sales and Purchase Agreement before the capital receipt is received.

6.28 In addition, as outlined in the asset disposal strategy, properties that are essential for the delivery of statutory services and those that

continue to provide an attractive and sustainable investment return are to be protected.

6.29 Aside from the above it is worth highlighting that through investment in infrastructure linked to Weyside, a number of future capital receipts could be realised, albeit in the long-term. These are:

- Biodiversity Net Gain (BNG) credits – there will be a surplus of BNG credits delivered at Weyside, which the Council could choose to sell to developers seeking to provide offsite mitigation.
- Stoke Park Nursery – the new GBC depot is capable of accommodating the existing parks and countryside operations currently sited at Stoke Park Nursery. This presents an opportunity for the Council to consider the future use of this site.

Descoping of the programme

6.30 The overall Weyside programme and associate scope of works for each infrastructure project is reviewed on an ongoing basis by the project team. The project team – including the Council’s advisors Gleeds (cost management) and Lambert Smith Hampton (property advisors) regularly review the costs, cash flow, scope, and viability of the programme. The development proposals are also reviewed to ensure that the site delivers as much of a financial return as possible whilst seeking to achieve the Council’s strategic priorities.

6.31 Fundamentally, the extent of the works being delivered by the Council in its role as master developer is fixed as it is necessary to unlock land for housing and employment delivery, and thus enable a capital receipt.

6.32 The only project area where the Council has been able to descope is its financial contribution to Surrey County Council (SCC) for the delivery of a new Waste Transfer Facility. When the forecast deficit was first identified, the Council notified SCC that it would no longer be in a position to provide the £6m contribution previously discussed and SCC would therefore need to wholly fund the project itself. This is being reflected in the updated Heads of Terms for the Waste Transfer Facility and associated land swap between GBC and SCC.

Summary of mitigation options

6.33 It is likely that a combination of the mitigation options is required to help address the deficit in the scheme. It is assumed that the utilisation of capital receipts from the asset disposal programme and an ongoing review of the Council's Treasury Management Strategy will be implemented; however, the benefit of both of these actions will need to be quantified in the paper presented to Council for decision.

6.34 Not all the reports from external consultants advising on the income strip option have been received and it is therefore currently premature to determine whether this should be considered further or not. Once available, and as outlined in the "Next steps" section of this report, an all Councillor briefing will be scheduled to talk through the opportunities and risks associated with each option.

6.35 As articulated in the annual financial report presented to Council in May 2024, should the Council not be in a position to close the deficit in its entirety, Minimum Revenue Provision will need to be set aside to cover the outstanding value which could be substantial. This will need to happen as soon as it is deemed that the deficit will be crystallised and cannot be mitigated.

7.0 Options

7.1 The Committee is asked to consider and comment on the information presented in this report, with particular emphasis on the mitigation options being considered.

8.0 Consultation

8.1 Updates on the progress of the WUV Programme have been provided to Councillors at the quarterly Weyside Governance Board meetings and the Strategic Programmes and Projects Board.

8.2 The Executive received a full briefing on the financial position of the WUV programme on 24 April 2024 and Council received a full briefing on 1 May 2024, prior to the 13 May 2024 annual financial update report.

8.3 It is anticipated that ahead of any future decision on which options to implement to address the current financial position on the scheme,

further briefings for all Councillors will be scheduled. These will likely be in March/ April 2025.

9.0 Key Risks

9.1 An extract from the current WUV risk register is attached at Exempt Appendix 3 and outlines the ten main risks associated with the WUV programme.

9.2 The future paper presented to Council outlining the options to mitigate the financial deficit will need to clearly articulate the risks and benefits associated with each to enable a fully informed decision to be made.

10.0 Legal and Governance Implications

10.1 The Council's internal legal and procurement officers are providing support to the WUV project team in relation to the delivery of the Programme. This will ensure compliance with the Council's legal duties including public law requirements, the Public Contracts Regulations 2015 (PCR 2015) and the Council's Contract Procedure Rules ("CPR") when conducting procurements, and entering into contracts and legal agreements connected with the implementation of the WUV project.

10.2 The Procurement Act 2023 has a current go live date of February 2025 (subject to any further delays). The Council's internal legal and procurement officers will continue to provide advice and support when this is implemented and any relevant legislation/regulations.

10.3 Legal advice on the income strip mitigation option has been provided by the Council's appointed external lawyers for Weyside Urban Village. The paper to be presented to Full Council in the New Year will outline the legal implications of any of the mitigation options pursued.

11.0 Financial Implications

11.1 Expenditure on Weyside Urban Village as of October 2024 is £166m as detailed below:

Expenditure to Date	Oct-24

	£Million
Thames Water Relocation	96
Internal Estate Road	11
Utilities & Plot Services	9
Allotment Relocation	6
Infrastructure Projects	26
Planning & Professional Fees	18
Total Expenditure	166

11.2 Grant received to date is £57m, including £8m from LEP and £49m from Homes England. There is £3m remaining to be claimed, against the agreed £52.3m loan agreement with Homes England.

11.3 The total expenditure forecast for the project is £452.9m, broadly in line with the £455m reported in the May 2024 annual financial update report to the Executive & Council.

11.4 The current deficit position is outlined in Exempt Appendix 2. An updated Annual Financial update report will be presented to the Executive & Council in early 2025. This will include a review of cost plans and a revised valuation on the anticipated housing plot receipts.

11.5 Exempt Appendices 1 and 2 (which were presented to Council in May 2024 but remains relevant) identifies the key movements in cost alongside the relevant narrative.

12.0 Human Resources Implications

12.1. The Weyside Urban Village programme is being delivered by the Regeneration & Economic Development service, sponsored by the Strategic Director Economy, Planning & Place and led by the Assistant Director of Regeneration and Economic Development.

12.2. The workstreams within the programme are being managed by the WUV project team, headed up by the Regeneration Lead (consultant). The WUV project team comprises a Development Manager (consultant), Development Surveyor (interim), Project Manager (interim), Finance Analyst (consultant), DWF Law LLP (legal), Gleeds (technical support) and a

Project Support Officer. The costs for those resources outlined above and others as part of the broader Weyside project team are incorporated into the scheme budget.

13.0 Equality and Diversity Implications

13.1. The Council has a statutory duty under section 149 of the Equality Act 2010 (the "**Act**") which provides that a public authority must, in exercise of its functions, have due regard to the need to:

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
- advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it. The relevant protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

13.2. This duty has been considered in the context of this report and it has been concluded that there are no equality and diversity implications arising directly from this report. A full Equality Impact Assessment has been prepared for the programme and will be reviewed as the programme progresses and individual projects are brought forward for delivery.

14.0 Climate Change and Sustainability Implications

14.1. The Council formally declared a climate emergency in July 2019 and set a goal for the borough to reach net zero emissions by 2030. The Council is committed to reducing emissions, particularly from vehicles, energy use and construction processes. These objectives have been and will continue to be considered throughout the delivery of the infrastructure works at Weyside Urban Village.

14.2. The approved designs for the first phases of housing are to a Passivhaus Standard and in accordance with the broader design code for the overall development. When either disposing of the land parcels or procuring a development partner (depending on the decision made by

Council next year), the Council will need to consider the developer's approach to sustainability to ensure it complies with expectations.

14.3. Weyside will also deliver a new nature reserve at Burpham Court Farm, providing a space for residents to enjoy nature and improving biodiversity. The plans include enhancing nearly 50 hectares of land to create a variety of habitats for wildlife, as well as providing greater access to the countryside for residents and visitors to enjoy.

15.0 Next Steps

15.1 Once all external commissioned advice has been received and a comprehensive picture of the relative risks and benefits of each financial mitigation option understood, a briefing for all Councillors will be scheduled. It is anticipated that this will be in March/ April 2025. This will be in advance of a paper being presented to Full Council in early Spring for decision on how to proceed in dealing with the forecast financial deficit.

15.2 Following a decision from Full Council, GBC will need to provide confirmation to Homes England of the Council's ability to finance the completion of the infrastructure works at Weyside Urban Village, along with confirmation of its strategy to dispose of the first phases of housing plots and how this links to the Homes England milestones and required outputs.

16.0 Background Papers

16.1 Full Council meeting, 13 May 2024 – Agenda item CO15 – papers provided as Exempt Appendices linked to this report.

17.0 Appendices

17.1 Exempt Appendix 1 – Financial Implications.

17.2 Exempt Appendix 2 – Reappraised Financial position.

17.3 Appendix 3 – Table of 10 main risks associated with the WUV programme.

Report clearance progress:

Finance	Richard Bates	24.11.2024
Legal & Governance	Tom Edwards	25.11.2024
Human Resources	Francesca Chapman	26.11.2024
Equalities	Francesca Chapman	26.11.2024
Strategic Director	Ezra Wallace	23.11.2024