Sheerwater Regeneration – Authorisation of further building phases.

Declaration of Interests

1. Prior to exercising his delegated authority, Ray Morgan (Chief Executive) declared a disclosable personal interest (non-pecuniary) arising from being a Council appointed director of Thameswey Group companies (not including Thameswey Developments Limited and Thameswey Housing Limited. The interest does not prevent Mr Morgan exercising the delegation referred to herein..
2. Prior to being consulted on this matter, Peter Bryant (Director of Legal and Democratic Services) declared a disclosable personal interest (non-pecuniary) arising from being a Council appointed director of Thameswey Group companies (including Thameswey Developments Limited and Thameswey Housing Limited. The interest does not prevent Mr Bryant from being consulted by Mr Morgan.

Thameswey Development Limited (TDL) commenced the first phases of the Sheerwater Regeneration Project in July 2019 following Planning Consent in April 2019. The first two phases comprised the Leisure facilities at Bishop David Brown School and the Purple residential phase of 92 dwellings. These phases started on a stand-alone basis whilst the Council detrmined the overall financial framework for the regeneration.

At its meeting on 13 February 2020 the Council approved the overall financial framework for the regeneration of Sheerwater based upon the Thameswey Financial Model that was presented to Council. A summary of the overall development cost is set out below.

TOTAL COST OF DEVELOPMENT	£
Synergy programme Costs (including Pre-budget cost)	411,658,145
Land Acquisition costs	70,101,332
Non-Synergy Development Costs	8,128,786
Sales & Marketing Costs	1,768,760
TOTAL Development Costs	**491,657,023**

The Council made available Loan Facilities to TDL and Thameswey Housing Limited (THL), the ultimate owner of the affordable homes created by the regeneration, for the regeneration of Sheerwater. The Council also approved an Operating Long Term Loan and Revolving Loan Facility for THL upon the completion of the development. The peak debt facility approved by the Council for THL was £347,370,000.

The Council permitted the release of each building phase, within the total debt approval, to be authorised by officers subject to an overall review mid way through the delivery of the regeneration. The overall review will be after the Blue phase has been commenced and before authorisation of further phases.

TDL has progressed, as planned, with the Leisure facilities and Purple residential phase and both are on schedule for completion in mid 2021.

TDL has requested authority to implement the next three residential phases concurrently; these will be the Red, Yellow and Copper phases as outlined below.

Taken together these phases will provide 380 homes of which 222 (58%) are affordable. The net gain in homes, after allowing for demolitions is 309.

The Red phase that will start in February 2021. This phase will comprise of 124 dwellings, of which 107 will be affordable (including 68 sheltered apartments for older people) and will include the Central Square at the entrance to the development. The Red phase will require the demolition of 21 residential properties. Within this phase, there will also be space for non-residential units that will enable relocation of businesses from Dartmouth Avenue and/or introduction of new businesses. An energy centre providing power and electricity to the medium rise development across Sheerwater will be located within this phase.

The Copper Phase will start in April 2021 and does not require demolition of properties as it is within the former athletic track area. The phase will prove 88 residential units of which 13 will be affordable. The Planning Consent permits a further four residential units but these will be provided later.

The Yellow phase will start in July 2021 and will require the demolition of 50 properties. This phase will provide 168 residential units of which 102 will be affordable. It is located in the centre of the development and will contain the main community facilities that have been integrated into a 'community hub', bringing together the replacement for Parkview, the existing nursery facility, the Sure Start facility and the Health Centre into one building. This building is next to the main park and the new community car park to make it an active centre for the community. Retail units have also been placed next to the Community Hub including one that is proposed to be a pharmacy to ensure the existing provision can be relocated next to the new health centre.

TDL submitted its request for authority to proceed; its supporting paper is attached at Appendix 1.

Officers have reviewed the request from TDL and the output of the updated Thameswey Financial Model and concluded that the update is in line with the Council approval of February 2020 with no material changes from the assumptions made at that time. The updated model indicates that the peak net debt may be reduced to £336,745,000 compared to the the approved £347,370,000.

The specific costs related to the implementation of the Red, Yellow and Copper phases is set out below

Phase	Construction £,000	Land Bank £'000	Fees £'000	Total £'000
Red	43,122	6,578	500	50,200
Yellow	69,915	10,211	500	80,626
Copper	27,171	-	500	27,671
TOTAL	140,208	16,789	1,500	158,497

These costs do not include any interest costs or long-term holding costs; neither does it take account of the planned sales income. These costs and income were incorporated in the financial model supporting the request to commence the Red, Yellow and Copper phases.

Accordingly, in accordance with the resolution of Council and consequential to its decision of 13 February 2020 the Chief Executive, in consultation with the Director of Finance and the Director of Legal and Democratic Services, authorises TDL to undertake the development of the Red, Copper and Yellow phases and to enable THL to acquire the affordable homes upon completion.

Signed ....

Chief Executive
4 December 2020

Appendix 1

Sheerwater – Request to commence the Red, Yellow and Copper phases.

This paper summarises the main changes from approved February 2020 council funding to the current Sheerwater Financing Model (SUB10 V4) and requests funding sign off for:

- Red, Yellow & Copper
- Agreement to go to Market for Blue
- Agree a Mid Term-Funding Review expected in June 2024

The model has been updated to reflect the changes highlighted below.

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1 Changes from the Sheerwater Regeneration February 2020 Model (SUB5 V13)

- Development delivery timescale has been extended by 18 months.
- The build phases reflect the smaller more frequent property releases.
- Tenders received for Red, Yellow and Copper. Development costs have been forecasted on the tendered Red phase starting in 2021. Original VE of £ 8.2M has reduced to £3M.
- Provision for a grant to St Michael's church for community facilities of £3M
- General development inflation rate changed from 3% to: 2020- 0.6%, 2021-2.4% and thereafter- 4.25%. No Inflation on Leisure Centre, Purple, Red, Yellow and Copper phases. Average inflation on development costs is 2.06%.
- Development costs increased by £ 3.6M.
- No allowance has been included for getting HRA properties to the demolished stage.
- Allowance for Leisure Centre holding cost included (Estimated costs: £ 200K for 2021/22, £ 150K for 2022/23 and £ 75K for 2023/24).

2 Comparison of Models

The table below summarises the sources of funding required, comparing February 2020 submission with the current November submission. The overall funding request currently is £336.7M, compared to February net debt of £347.4M.

February Council approved a Total Net Debt of £347,370. A reduction of £10.7M

Source of Funding	Peak Debt £'000	Peak Debt Date
Development Loan 1 (TDL)	152,073	31-Mar-23
Operating Loan 1 (THL during construction)	317,251	30-Sep-27
Operating Loan 2 (THL on completion)	317,504	31-Dec-27
Total Debt	**329,745**	**31-Mar-27**
THL Negative Cash	79,487	30-Sep-48
THL Net Debt	**336,745**	**31-Sept-39**

Source of funding £'000	Feb 2020 Peak Debt	Feb 2020 Peak Debt Date		Nov 2020 Peak Debt	Nov 2020 Peak Debt Date
Development Loan 1 (TDL)	115,432	31-Dec-21		152,073	31-Mar-23
Operating Loan 1 (THL During Construction)	268,308	30-Sept-24		317,251	30-Sept-27
Operating Loan 2 (THL on completion)	289,449	31-Dec-24		317,504	31-Dec-27
TOTAL Debt	**314,081**	**30-Sept-24**		**329,745**	**31-Mar-27**
THL Negative Cash (Revolving Loan)	115,632	30-Sept-55		79,487	30-Sept-48
THL Net Debt	**347,370**	**30-Sept-46**		**336,745**	**31-Sept-39**

Financial implications:

- Development Costs increased by £ 3.2M due to extending the development period and the associated impact of the inflations.
- Leisure Centre running costs are included at £0.425M
- Development Financing costs increased by £ 8.8M (from £ 8.9M to £ 17.7M) due to the delay of the Red and Yellow phases and extension of the development programme by 18 months.
- Operating Loans 1 & 2 have increased due to the development period extending.
- THL negative cash is reduced as the operating loan period extended from 4 to 6.5 years to match the development period.

3 Budget cost variance Tracker

£'000	February 2020	November 2020	Actual	Variance
Building				
LC	20,774	21,318		544
Purple	31,631	31,471		-160
Red	45,130	43,122		-2,008
Yellow	68,465	69,915		1,450
Copper	29,412	27,171		-2,241
Land Bank				
Purple	7,399	7,375	7,356	
Red	6,531	6,531	6,578	
Yellow	9,971	9,971	10,211	
Copper	-	-	-	

4 Sensitivity Analysis

Sensitivity results have shown that the model is viable if the interest rates are increased by 0.25% or Rental Inflation is reduced by 0.25% (from 3% to 2.75%). The joint variables leave THL with closing negative cash balance of £ 92M in 2078. However, the curve towards breaking even is steep and THL would be cash positive before 2088.

The model is most sensitive if properties are sold at market value rate lower than the cost of build. As such, we have modelled the scenario of keeping all properties within THL model. The additional properties would be rented at the open market rate. The scenario proves to be viable in terms of TDL receiving its agreed profit and generating addition Grant to THL of £ 9.7M. THL's closing cash balance in 2078 is £ 651M. The risks lie with THL having £ 512M peak debt in Sep 2034. The risk is mitigated by the asset value held in THL at affordable rate (discounted at 15%) being £ 546M.

Scenario Sensitivity Summary SUB10 V2	Closing Cash (£ 000)		Grant to THL	Closing Debt (£ 000)		Peak Debt (£000)
	TDL	THL		TDL	THL	THL
BASE Sheerwater Model SUB5 V13- Council approved in Feb 2020	4,567	177,150	0	0	0	347,370
BASE Sheerwater Model SUB10 V4	4,731	210,950	140	0	0	337,347
0.50% increase on all Interest rates (leave in 0.5% increase margin)	3,608	-47,704	0	0	0	402,824
0.25% increase on all Interest rates (leave in 0.5% increase margin)	4,243	99,561	0	0	0	366,098
0.5% reduction in Rental inflation (from 3% to 2.5%) All Rents	4,731	-125,366	140	0	0	366,711
0.25% reduction in Rental inflation (from 3% to 2.75%) All Rents	4,731	43,712	140	0	0	349,555
0.5% reduction in Rental inflation (from 3% to 2.5%) OM only	4,731	56,630	140	0	0	348,597
0.25% Increase in interest rates and 0.25% reduction in Rental inflation	4,243	-91,913	0	0	0	384,501
2% Reduction in Sales inflation (from 3% to 1%)	0	206,821	0	12,664	0	338,651
1% Reduction in Sales inflation (from 3% to 2%)	0	208,572	0	4,105	0	338,101
0.5% Reduction in Sales inflation (from 3% to 2.5%)	771	209,548	0	0	0	337,792
All rent: SR 439, AR 84 OMR 619 (Inflation 3%, £3M of Developers Grant Removed)	4,731	651,363	9,741	0	0	511,739
Increase Inflation on building costs by 1%	0	151,804	0	1,803	0	356,324

	Increase	**PWLB**	**Modelled**	**0.50%**	**0.25%**
Loan Interests	Development	2.28%	2.79%	3.29%	3.04%
	Op Loan 1	2.28%	2.79%	3.29%	3.04%
	Op Loan 2	3.10%	3.57%	4.07%	3.82%
	Positive cash		1.80%	2.30%	2.05%
	Negative cash		3.42%	3.92%	3.67%