

## **SHEERWATER REGENERATION SCHEME**

### **Executive Summary**

This report provides an update on the Sheerwater Regeneration Scheme and seeks authority for Thamesway Developments Limited to be provided with the funds for the implementation of the first part of the scheme, the provision of recreational facilities.

The report also updates the Council on the Statutory Consultation with Secure Tenants, the Equality Impact Assessment, the success rates of Compulsory Purchase Orders, and the current progress in voluntary acquisitions of private homes and voluntary moves of tenants. The Council is requested to approve the proposed tenancy arrangements for future affordable homes and authorise the Chief Executive, in consultation with the Leader of the Council and the Portfolio Holder to take appropriate action to address the recommendations in the Equality Impact Assessment.

The report also includes a brief update on the voluntary sale of private homes, where approximately half have already agreed to sell to the Council/Thamesway and of the voluntary tenant moves where 161 (75%) have indicated a willingness to move out of Sheerwater of which 23 have already moved. This is extremely positive at this stage of the redevelopment and prior to the Council being recommended to make the CPO.

The request from TDL is for a Loan Facility of £26m, on the terms previously approved by Council, to enable it to implement the Leisure and Recreational facilities at the Bishop David Brown site. The Chief Finance Officer has reviewed the Ernst & Young updated financial model and concludes that the Council can proceed with implementation of the Leisure and Recreation proposal as part of its commitment to the full regeneration of Sheerwater. The advice is based on the commitment of the Council to see through the full implementation of the regeneration proposals as it would be detrimental to Council's financial position if there was only partial implementation.

Accordingly Council is advised to authorise a Loan facility of £26m, on terms previously approved by Council, to enable TDL to implement the approved Leisure and Recreational facilities as a first stage of the full regeneration of Sheerwater.

### **Recommendations**

The Council is requested to:

#### **RESOLVE That**

- (i) a Loan facility of £26m, on terms previously approved by Council, to enable TDL to implement the approved Leisure and Recreational facilities as a first stage of the full regeneration of Sheerwater;
- (ii) the assured shorthold tenancies, to be granted by Thamesway Housing Limited, of properties within the regenerated Sheerwater shall include the provisions set out in paragraph 3.10 of this report, and
- (iii) the Chief Executive, in consultation with the Leader of the Council/Portfolio Holder, be authorised to take appropriate action to address the recommendations contained in the EqIA.

The Council has the authority to determine the recommendation(s) set out above.

**Background Papers:** Womble Bond Dickinson Report on CPOs.

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### 1.0 Introduction

- 1.1 This report provides an update on the Sheerwater Regeneration Scheme and seeks authority for Thameswey Developments Limited to be provided with the funds for the implementation of the first part of the scheme, the provision of recreational facilities.
- 1.2 The report also updates the Council on the Statutory Consultation with Secure Tenants, the Equality Impact Assessment, the success rates of Compulsory Purchase Orders, and the current progress in voluntary acquisitions of private homes and voluntary moves of tenants. The Council is requested to approve the proposed tenancy arrangements for future affordable homes and authorise the Chief Executive, in consultation with the Leader of the Council and the Portfolio Holder to take appropriate action to address the recommendations in the Equality Impact Assessment.

### 2.0 Implementation of the Sheerwater Regeneration Scheme – Leisure and Recreation.

- 2.1 The Council at its meeting on 8 February 2018 authorised Thameswey Developments Limited (TDL) to progress the scheme by obtaining tenders in respect of the approved Phase 1 recreational and residential elements of the scheme and to submit a further Hybrid Planning Application for the remainder of the scheme.
- 2.2 As advised and agreed at Council on 8 February 2018 the approved Phase 1 of the regeneration scheme has been split into the Leisure and Recreational element and the Housing element because of the reluctance of contractors to tender so far in advance for the residential element as the first phase of residential cannot start until the Athletics Track has been relocated in Autumn 2018.

#### Sheerwater Regeneration Scheme Revised Hybrid Planning Application

- 2.3 The Hybrid Planning Application has been submitted and is summarised below.
- 2.4 TDL has submitted a new Hybrid Application for the Sheerwater Regeneration Scheme. This is the next step in delivering the Council's ambition of providing a new high quality development for Sheerwater providing top quality, leisure facilities, recreation space and homes of a range of sizes and tenures.
- 2.5 The application reflects 8 months of detailed work reviewing the existing approved Master Plan and taking on board the challenges set by the Council. These were to increase the amount of public open space whilst increasing the total number of properties and reviewing the mix of property sizes. The new Sheerwater Regeneration Scheme proposed by TDL reflects the proposals outlined at the Public Exhibition on the 18th January 2018 and considered by Council at its February 2018 meeting.
- 2.6 The first stage of the Scheme, which is the subject of the request from Thameswey to the Council on the 5th April 2018 to approve the necessary borrowing, is the development of a new leisure complex at Bishop David Brown School. This complex will provide a top class 3G full size football pitch, new football and rugby grass pitches with improved drainage and a leisure centre. The leisure centre will provide the local community and the school with top class swimming and recreational space. The centre will have a 25m pool and a separate teaching pool, a 5 court sports hall, studio spaces and a gym as well as associated changing and social spaces. The leisure centre will be heated using ground source heat pumps and solar arrays to provide low carbon sustainable energy to the centre.
- 2.7 There will also be new parking facilities and fencing which will improve the number of spaces available to the centre and improve the safety of the school. The re-configuration of the parking also prevents the requirement to demolish four of the five properties highlighted for demolition near the school entrance under the approved Master Plan.

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- 2.8 The outside pitches and leisure centre will be subject to a Community Use Agreement between the Council and the School enabling community access to the facilities when not required for educational use, benefitting both the community and the school.
- 2.9 Subject to Council approval and allocation of finance as outlined in this report the first stage of the Regeneration, the leisure complex and recreational facilities, will start construction in July 2018. TDL has selected Pellikaan as its preferred contractor to deliver the leisure complex following a comprehensive market competition.
- 2.10 Subject to approval by the Council for the release of further funds at its meeting in July 2018 the residential development will commence in Autumn 2018 on the site of the Sheerwater running track. The track will have already relocated to Egley Road, Woking in September 2018. This will start a residential build programme which will, if the Planning application is approved, lead to up to 1200 new homes in the regeneration area. The current applications identify 1141 proposed homes of which 47% are affordable. TDL is currently undertaking a tender exercise for the first phase of the residential build a comprehensive market competition in the same way as the leisure.
- 2.11 As outlined at the public event in January and Council in February the residential elements of the scheme fall into two clear zones; a low rise area and a medium rise area which are separated by a new central park area which will be over a third of a hectare larger than the current consented scheme's park. The central park, with the associated 'green streets' and linear park will provide a large public open space within the core of the new regeneration area. Easily accessible to all residents and car free they will provide both informal and formal leisure spaces and key wildlife and bio-diversity space. A large central play area with a neighbouring Multi Use Games Area and skate park will provide a focus to the new park area with facilities for all ages. The scale of the central park will allow for informal kick about, walking and relaxing in addition to the formal play associated with the MUGA and play areas.
- 2.12 The low rise element of the residential development follows the design code of the 92 homes which have already obtained detailed consent and provides family homes of two to three storeys within carefully landscaped roads that are designed to slow traffic speed and keep parking to designated areas. The homes have been designed to quality mark standards and therefore provide large internal spaces that are adaptable should residents mobility change. A small number of the homes will also be built to a fully adapted standard with hoists and lifts installed on construction. The homes will have high insulation standards and those of three bedrooms or larger will have solar thermal heating all of which will keep residents fuel bills low and reduce the cost of living in the new homes.
- 2.13 The medium rise area is where the most significant change has been developed from the existing approved Master Plan. In this area TDL has introduced the concept of podium accommodation where the parking associated with the homes are located on the ground floor and gardens and communal grounds are located above them. This design allows the scheme to provide greater levels of parking whilst maintaining the open space and visual amenity envisaged by the Master Plan. The podiums will ensure that communal gardens can be provided to the apartments in addition to their balconies to provide greater access to semi private open space.
- 2.14 The medium rise element of the scheme also allows the TDL proposal to provide more, smaller units, as requested by the Council, when compared to the existing approved Master Plan. This will more closely reflect the housing need of the local community whilst maintaining the overall increase in family sized accommodation which was a core premise of the original regeneration proposals. The medium rise development has the same high quality design, adaptability and energy efficiency as the low rise elements of the scheme but will also contain a new district energy network which will ensure that lower carbon heat and electricity is provided to the residents and businesses in the centre of Sheerwater.

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- 2.15 The medium rise element of the scheme will also provide the location for new centrally located affordable sheltered accommodation.
- 2.16 The main community facilities of the scheme are also located within the medium rise element and link the town square to the central park. They will contain a new high quality community centre, an expanded Health Centre, a new separate dental facility and new nursery and Sure-Start facilities. The central combined location for all of these facilities means that they will provide a key focus for the new community of the regeneration scheme. All of the retail elements of the regeneration are located within the medium rise. The retail element is designed in a flexible manner but as an initial layout will contain six local shops (including a pharmacy), a pub/restaurant and a larger mini-mart/showroom style unit. The scale of this offer has been based on a retail study and reflects the proposed community, the location of the existing supermarket and the proximity and ease of access of both West Byfleet and Woking commercial centres.
- 2.17 In addition to the high energy efficiency and water conservation standards TDL has designed across the scheme it will also provide a private fibre network to all of the homes and community facilities. This network will ensure that people living and working in Sheerwater will have access to the latest high speed internet services improving the economic development opportunities of the scheme.
- 2.18 The current Planning Application envisages an eight year construction programme.
- 2.19 This report, and the financial advice from the Council's Chief Finance Officer, is based upon the revised Planning Application as approved by Council on 8 February. Whilst there is a risk that the Local Planning Authority process may result in further changes the pre application consultation suggests that there is a low risk of any substantial change which would adversely affect the assumptions in this report.

### New Leisure and Recreation Facilities

- 2.20 The outline above explains the detail of the new leisure and recreational facilities and the upgrading of the Bishop David Brown site. TDL has obtained tenders for this part of the scheme and is now seeking authority, and the release of funds to implement it, with works scheduled to start in July 2018.
- 2.21 The confidential information related to the Tender exercise is attached to the Part 2 report for information. Based upon the recommendation from its advisors, Synergy, TDL proposes to appoint Peliikaan Construction Limited, an experienced leisure centre contractor, to implement the project.
- 2.22 The scheme cost analysis may be summarised as:

<b>Cost Item</b>	<b>£</b>
Leisure centre	19,988,000
Professional Fees	2,474,179
Contingency	1,009,105
Loan Interest	2,528,716
<b>Total Costs</b>	<b>26,000,000</b>

- 2.23 TDL is therefore seeking a Loan Facility of £26m to enable it to implement this part of the Regeneration Scheme. The financial model, built by Ernst & Young, for the full proposal has been updated and more detailed commentary from the Council's Chief Finance Officer is included in the Financial Implications section of this report.

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- 2.24 In summary it is clear that the Council can proceed to implement the leisure and recreation phase on the basis that it has already agreed to implement the full regeneration of Sheerwater subject to signing off the details of Phase 1 and setting the process for signing off future phases.
- 2.25 Accordingly it is recommended that the Council authorises the Loan Facility for TDL, upon the terms as set out in its previous approval at the Council Meeting on 6 April 2017 to appoint TDL to implement the Sheerwater Regeneration Scheme.

### 3.0 Statutory Consultation with Secure Tenants

- 3.1 Section 105 of the Housing Act 1985 ("Section 105") requires the Council to maintain such arrangements as it considers appropriate to enable secure tenants who are likely to be affected by a matter of housing management to which Section 105 applies to be informed of the Council's proposals about it, and to make their views known to the Council within a specified period.
- 3.2 Recently, secure tenants were consulted on the proposed terms of the assured shorthold tenancy agreements that would be offered by Thamesway Housing Limited of properties within the regenerated Sheerwater.
- 3.3 The Halo Works ("Halo") was commissioned to undertake the consultation on behalf of the Council.
- 3.4 The consultation focussed on a number of proposed changes to secure tenants' tenancy agreements, and was conducted in a number of stages. These included the preparation of the questionnaire which was "sense-checked" at a facilitated focus group. Following this, the questionnaire was amended and sent to 360 secure tenants, along with a covering letter and freepost envelope. Three weeks later, a reminder consultation mailing was sent to the 313 secure tenants who had not responded to the initial survey mailing. This generated a strong response and, overall, 125 secure tenants responded to the consultation. Halo considered this to be an excellent overall response rate of 35%.
- 3.5 A copy of Halo's report on the consultation is appended (Appendix 1). A summary of the results from the consultation is as follows:-
- Seven out of ten tenants said they understood how their tenancy was going to change.
  - From the list of options provided, 72% supported a fixed tenancy period of ten years.
  - 45% of tenants agreed that if the proposed new rent levels were similar to the ones already in place at Kingsmoor Park, they would be fair and reasonable for a new property in Woking. A further 31% disagreed whilst almost a quarter 24% responded 'don't know'.
  - On the proposal to increase rental levels by CPI + 1%, 37% agreed this level of increase would be fair and reasonable for a new property in Woking, whilst 36% disagreed. A further responded 27% 'don't know'.
  - Tenants were also invited to give their views on the new Earn your Deposit Scheme (EDS), which could be offered to former secure Council tenants who took a new tenancy within the Sheerwater Regeneration area. 29% believed this scheme could be a good idea for them and their household, whilst 29% also disagreed. A further 42% responded 'don't know'.
  - Similarly, 37% thought the EDS would be a good idea for other tenants within the Sheerwater Regeneration area, whilst only 13% disagreed. 50% responded "don't know".

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- 3.6 The questionnaire gave secure tenants the option of (i) giving their views on the future management of the rental properties and (ii) providing any other comments they wished to make. These are included in Halo's report.
- 3.7 Citizens Advice Working ("CAW") commented on the consultation. A copy of their letter is appended (Appendix 2). CAW had two main concerns, (i) the timing of the consultation and (ii) whether the consultees would understand what they were being consulted on.
- 3.8 With regard to the timing of the consultation, the consultation period stretched from 12 December 2017 to 19 January 2018. This included a substantial period outside the Christmas/New year "break". In addition, including the Christmas/New Year "break", gave people a greater opportunity to respond (as they were more likely to be at home, so would have more time to do so). As stated in paragraph 3.4 above, there was, in Halo's view, an excellent response to the consultation (35%).
- 3.9 With regard to whether consultees understood what they were being consulted on, 70% of respondents stated that they understood how their tenancies would change, with only 13% (15 out of 121 respondents) saying they did not. Appendix 3 to Halo's report gives details of the "sense-check" focus group meeting held prior to the consultation questionnaire being sent out. This meeting included "piloting" the wording of the questionnaire to check it was understood. Changes were made following the "sense-check" focus group meeting.
- 3.10 Taking account of the consultation responses, it is recommended that the assured shorthold tenancy agreements to be offered by Thamesway Housing Limited should include the following provisions:-

### Tenancy Length

The initial fixed term length should be ten years (supported by 72% of respondents).

### Rent Levels

The initial rent levels should be equivalent to those set for properties at Kingsmoor Park (45% of respondents considered these rent levels to be fair and reasonable, with 31% disagreeing).

### Rent Increases

The annual increase in rent levels should be Consumer Price Index (CPI) plus 1%, as it is in Kingsmoor Park (37% of respondents considered this to be fair and reasonable, with 36% disagreeing).

### Earn your Deposit Scheme (EDS)

The Earn your Deposit Scheme should apply to Thamesway rental properties in Sheerwater (29% of respondents thought this was a good idea for them or their household, with 29% disagreeing. 37% of respondents thought this was a good idea for other tenants living within the Sheerwater Regeneration area, with 13% disagreeing).

It is also considered that secure tenants who are required, as part of the regeneration, to move from a WBC secure tenancy to a new Thamesway property in the regeneration area should be credited with three years' deposit entitlement after they have been in the Thamesway property for one year (having complied with the standard conditions that apply to EDS, e.g. the "Good Tenant" requirement). This goes some way to compensating existing secure tenants for the loss of the right to buy resulting from moving from a WBC secure tenancy to a Thamesway assured shorthold tenancy.

### 4.0 Equality Impact Assessment

4.1 As part of the detailed preparation for the proposed CPO, Dr Sophia Skyers of CIBS IQ Research was commissioned to undertake a predictive Equality Impact Assessment ("EqIA"). The purpose of the EqIA is to assist the Council in complying with its statutory obligations when it considers whether to make a CPO. This decision is programmed for the Council meeting on 18 October 2018.

4.2 The EqIA took account of the revised regeneration proposals which are the subject of the revised planning application submitted by Thameswey.

4.3 A copy of the EqIA is appended (Appendix 3). The headline findings of the EqIA are as follows:-

- Overall, the CPO proposals are considered to have a potential positive impact in terms of the phasing of the housing proposals, which will enable residents to remain in Sheerwater if that is their wish, and the potential positive impact they will have in stimulating inward investment by transforming the physical fabric of the area to power economic and social progress.
- The scheme will be led by the community recreation and leisure provision which is considered to be potentially positive in its impact in providing residents with tangible expressions of progress prior to the implementation of the housing proposals.
- The overall scheme will deliver a net increase in affordable housing, including provision for some of the most vulnerable residents currently living in Sheerwater, a net increase in the amount of useable open space and increased road safety. This is considered to be positive in terms of its potential impact on the health and future well-being of residents.
- The proposals in relation to employment and training arising from the redevelopment are considered to have the potential for positive impact as they are allied to specific supply side interventions to support local people.
- The consultation underpinning the scheme has been extensive and intensive. The opportunity arising from the revised CPO timescale means that the Council can undertake more and varied kinds of consultation with groups that are harder to hear and who, through a variety of access needs, may not be able to engage with the more formal approaches to consultation or the more obvious tools of self-expression. This will build on the existing good relations between different groups in the area.

4.4 The EqIA contains ten recommendations. These are as follows:-

- A broad community engagement strategy should be developed that takes account of groups who are '*harder to hear*', and which builds on the extensive engagement undertaken to date. The strategy should be reviewed at key stages of planning, relocation and construction if the CPO is approved, and the customised engagement approaches fully incorporated to facilitate broader engagement, and fill any gaps.
- As part of the development of a broader community engagement strategy, a wider menu of intensive engagement options should be developed, in order to engage with groups that have specific access needs. This includes residents with sight impairment, and residents with a variety of access needs who do not have the resources, knowledge, and/or agency to make their voices heard.
- As part of the on-going assessment of impact, effective monitoring of the consultation and evaluation should be cross-referenced with and informed by the EqIA equality baseline. In addition, a broader approach to evaluating impact of the consultation should be developed, that moves beyond paper-based approaches.

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- As part of the CPO consultation and process, there is a need to engage small businesses in the area; in particular, home based businesses, and the retailers in the shopping parade who tend to be black and minority ethnic family run small businesses.
- The Council consider monitoring the end destination of owners and those currently employed in retail establishments in Sheerwater.
- The rich data on the needs of secure tenants through the Housing Needs Assessment Team should to be captured and used to inform the wider engagement approaches with secure tenants those who are '*harder to hear*'.
- As part of the CPO process, there is a need for more detailed engagement work with the organisations the use the Parkview Community Centre to provide their services.
- As part of the implementation of the CPO, the Council should have recourse to The Public Services (Social Value) Act, 2012, which places a duty on public bodies to consider social value ahead of procurement and S106 of the Town and Country Planning Act, 1990 (as amended) to help to ensure that the employment and training benefits are evenly dispersed.
- The Council should make the EqIA available to the stakeholders cited in the report, and make the EqIA publicly available
- The Council consider the action plan that forms Appendix A to the EqIA report.

4.5 It is recommended that the Chief Executive, in consultation with the Leader of the Council/ Portfolio Holder, be authorised to take appropriate action to address the recommendations in the EqIA. The Sheerwater Regeneration Project Board and the Sheerwater Regeneration Oversight Panel will, where appropriate, be involved in this process. Council will be advised of the action taken at its meeting on 18 October 2018.

### 5.0 Success Rate of CPOs

5.1 Womble Bond Dickinson (Solicitors) produces regular reports looking at the usage and success rates of CPOs, principally those made under the Town and Country Planning Act 1990 (i.e. Planning CPOs) and the Housing Act 1985 (i.e. Housing CPOs). The proposed CPO for the Sheerwater regeneration will be a Planning CPO.

5.2 Womble Bond Dickinson's latest report was published at the end of 2017. This report echoes many of the key messages contained in previous reports, i.e.

- CPOs are a vital tool for regeneration.
- Success rates for both Planning and Housing CPOs remain high.
- There are a range of reasons, from technical and evidential, why some CPOs were not confirmed by the Secretary of State.
- A significant number of local authorities make use of compulsory purchase powers, but generally do so sparingly.

5.3 The 2017 report additionally makes the following findings:-

- In 2015, 57 Planning CPOs and 54 Housing CPOs were submitted respectively. In 2016, 40 Planning CPOs and 39 Housing CPOs were submitted.
- Both Planning and Housing CPOs continue to demonstrate high levels of success. The figures indicate that:
  - For Planning CPOs, at least 87% in 2015 and 82% in 2016 succeeded. These figures may be even higher when considering withdrawn CPOs due to acquisition by agreement.
  - For Housing CPOs, the equivalent figures are at least 79% in 2015 and 88% in 2016.

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- The level of success for CPOs in 2015 and 2016 is consistent with previous years, and demonstrates an established long-term trend.

5.4 Provided it addresses all relevant issues at the appropriate time, Council can be reasonably confident that any CPO it decides to make will have a good chance of being confirmed by the Secretary of State.

### 6.0 Update on Property Acquisitions and Tenant Voluntary Relocation

6.1 There were 123 privately owned properties within the “red line” regeneration area. To date 88 property owners have voluntarily engaged with the Council/Thameswey and 60 have agreed terms to sell. Currently 22 acquisitions have been completed and the remainder of accepted offers are with respective lawyers. In June there will be a proactive approach to the remaining owners to seek to secure a voluntary arrangement prior to recommending to Council to make the CPO in October 2018.

6.2 Some tenants had already left Sheerwater to take the opportunity of new homes in the Kingsmoor, Westfield. However there were 308 Secure Tenants within the “red line” regeneration area at the point when Council agreed to proactively engage with them on an individual basis. To date 216 tenants have been visited of which 161 have indicated a willingness to leave Sheerwater and not seek to return; 23 have already moved.

6.3 This is a very positive position at this stage of the regeneration and as reported in the Green Book there are 97 properties currently being let as “Non Secure” pending the redevelopment.

### 7.0 Implications

#### Financial

7.1 The financial model originally built by EY in 2016/17 has been updated for the latest costs, residential property numbers and timings. The modelling enables the impact of varying the assumptions to be assessed by comparing the projected cash flows.

7.2 With the current assumptions, the model shows that over the 70 years post completion the project results in a final positive cash flow position of £95m in THL. TDL generates a £5m profit on completion of the development and provides a £32m grant to THL to subsidise the cost of the housing transferred.

7.3 The Peak Debt in TDL during development is £108.5m, at the beginning of year 4 before the first significant asset sales. The Peak Debt in THL is £120.8m on acquisition of the properties from TDL. The consolidated Peak Debt is £173m at the beginning of year 8 towards the end of construction but before the full revenue from sales has been achieved. (TDL £55m, THL 117m).

7.4 The most critical assumptions for the modelling in THL are set out in the table below:

Assumption	Value	Comments
Interest Rates	Long term funding at 3.53%/ Short term funding 2.37% plus margin where agreed	There is an expectation of increasing interest rates over the medium term; however, it is not certain how quickly rates will rise. A 0.8% uplift compared to current rates has been included. There remains flexibility to consider taking long/short term annuity and maturity financing if necessary as the project progresses.
Rental Inflation	3% pa	Social rents will increase at CPI plus 1%. Average CPI over the last 30 years is 2.58%. Affordable rents will increase in line with TW

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		policy which is an average of 3%.
Construction Inflation	4.5%, £51m in total	Only a risk during construction.
Sales Inflation	3% pa	Only a risk during construction/sales period. It will be possible to choose to rent out properties in the short term rather than sell in a difficult market.

- 7.5 The model discharges all the project costs which have currently been incurred by the Council, as reported in the Green Book. These include the costs of the NVH underwrite, infrastructure works to remove the pylons, and compensation for the use of the athletics track land. It also compensates the HRA, £13m, for the land which will be acquired plus additional amounts for street properties bought more recently. £41m is budgeted for the purchase of private properties.
- 7.6 Housing Infrastructure Funding of £9,384,000 has been included in the model as awarded by the Government on 1 February 2018. The model assumes the funding will be received at the end of the construction period however this income is likely to be paid in the earlier development phases.
- 7.7 Whilst costs are available for the leisure element of the scheme, final tender costs have not yet been acquired for the residential development. Until the tender process has been completed there is a risk that costs could be different to those currently assumed in the model. It is reassuring that the costs originally assumed for the leisure element were greater than the final procured value. The modelling includes a contingency of £12m but also assumes value engineering of £6m expected as a result of the final tenders.
- 7.8 There also remains a risk that, for some external reason, it is not possible to progress the project and that TW is left with the leisure element of the scheme with no residential development to contribute to the costs. TW have obtained two indicative valuations of the consented site released once the athletics track at Egley Road is operational. The likely capital contribution which could be achieved will not cover the costs of constructing the leisure element, but would reduce the borrowing the Council would have to service (to approx. £12m).
- 7.9 In this scenario, there would also be no re-imburement to the Council of the amounts incurred directly to date referred to in 7.5. This would have an adverse affect on the MTFs (also on this agenda) which assumes a £370k reduction in financing costs as a result of the athletics track funding. In addition the savings targets would increase by approximately £600k to cover the net cost of the leisure facility. TW would also require sunk costs on the scheme so far (£5m approved) to be covered.
- 7.10 The MTFs report sets out the Investment Programme items currently built into budget forecasts. If the residential scheme did not progress, it is likely that all non-essential schemes funded by borrowing (e.g. Flooding schemes/Woking Gym Club) would have to be postponed until further resources were available with the borrowing for Sheerwater replacing amounts currently assumed in the forecasts.
- 7.11 Sensitivity analysis performed using the EY model shows that the model is particularly sensitive to changes in the base assumptions.

Variation	Impact on THL £95m surplus
Increase interest rates by 0.2%	-£46m
Reduce Sales value inflation by 1%	-£159m

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Remove £6.2m value engineering	-£60m
Timing of income - assume HIF funding £9m at the beginning of construction rather than the end.	£4m

- 7.12 Whilst the sensitivity analysis suggests significant potential variances to the base position, it is important to also consider that there will also be an asset – the housing properties – at the end of the period. At a 3% assumed valuation increase over this period, the open market value of the housing asset in THL would grow in valuation from an initial £175m to £462m by 2077. Applying a social rent factor (33%) to both the social and affordable properties, as for HRA assets, still generates a valuation of £152m at the end of the modelling.
- 7.13 In order to manage the variation risks identified above, it is recommended that TW consider reducing the length of the construction period. This has the advantage of reducing inflation in construction costs (Total £51m assumed in the model), whilst also reducing the risk of increasing interest rates and would achieve certainty of some of the key variables sooner than in the current plans.
- 7.14 Following changes to the CIPFA and government capital financing guidance, TW should also incorporate a financing model which does not include share capital from the Council. The costs for TW are likely to be the same as the existing model as the margin charged by the Council covers the financing costs of both loans and share capital. For the Council this would avoid earlier repayment of the debt associated with the shares, which the government has now indicated should be over 20 years. It may also be beneficial to consider a combination of maturity and annuity loans to finance the scheme to allow time for rental income to increase.
- 7.15 The Council is in a position to commence the construction of the leisure facilities upon the basis that it has already decided to fully implement the Sheerwater Regeneration Scheme subject only to detailed sign off of Phase 1 and setting the criteria for future sign offs. As stated earlier in the report the council cannot just “do a bit” in Sheerwater, it will need to implement it all and therefore the adverse impact on the Council should the project not progress should be noted.

### Human Resource/Training and Development

- 7.16 There are no additional human resource issues raised by this report

### Community Safety

- 7.17 Community Safety issues will be addressed during the development.

### Risk Management

- 7.18 Doing nothing, or doing only part, will leave Sheerwater significantly disadvantaged. Commitment to full implementation is essential both for Sheerwater and the Borough as only through full implementation will the financial viability be secured.
- 7.19 The project has both inflation risk and interest cost risk during construction, by reducing the construction period this will reduce the risk of cost inflation/increased financing costs.

### Sustainability

- 7.20 The regeneration of Sheerwater will enhance the sustainability of the local community and the wider Borough. The Leisure and recreational facilities will provide high quality facilities to

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the least well served part of the Borough and benefit those in the wider eastern area of the Borough.

- 7.21 The new development is being proposed with high levels of energy efficiency and will contribute significantly to the reduction of flood risk.

### Equalities

- 7.22 Equality issues will be addressed during the development.

### Safeguarding

- 7.23 Safeguarding issues will be addressed during the development.

## **8.0 Conclusions**

- 8.1 The proposals outlined in this report will enable the Council to start the implementation of the regeneration of Sheerwater and provide a significant increase in new homes.

REPORT ENDS