

SHEERWATER REGENERATION

Executive Summary

In April 2017, the Council appointed ThamesWey Developments Limited (TDL) as its Development Partner for the Sheerwater regeneration scheme. The scheme is intended to deliver 1,142 new residential units, along with the associated community infrastructure, over a phased programme lasting circa 9 years.

The regeneration scheme was to be funded by a mix of borrowing by the Council from the Public Works Loans Board (PWLB) with on-lending to ThamesWey, income from the disposal of new market homes and the issuance of 'free' and 'discounted' land via a barter transaction between ThamesWey and the Council. As of 30 April 2023, ThamesWey is expected to have a net debt position of circa £185 million upon completion of the current construction phases. The peak debt is expected to increase to £361 million at the end of the regeneration scheme.

In light of the significant financial challenges faced by the Council, it was agreed in February 2023 that a mid-point review would be brought forward sooner than originally planned. On 7 June 2023, the Section 151 Officer issued a Section 114 Notice to the Council which estimated a General Fund deficit of £1.2 billion by 31 March 2024. Within this context, the Council cannot afford, and ThamesWey cannot rely on, the future borrowing required to complete the regeneration.

The Sheerwater regeneration is currently mid-construction on three phases - Copper, Red and Yellow. This report proposes that the current Development Agreement relationship with ThamesWey is brought to an end and that ThamesWey seek the necessary approvals to conclude their involvement in the project in the most cost-effective way. A report on the future delivery of the wider Regeneration Scheme will be brought to the Executive and Council in the Autumn.

Whilst the review is ongoing, affected secure tenants will remain in 'Band B' priority on Choice Based Lettings, with the payment of compensation being considered on a case-by-case basis where there is a demonstrable need for the move to proceed.

The Council remains committed to delivering a regenerated Sheerwater and will be seeking the views of the local community over the coming weeks on how best to achieve this. Options could include redevelopment by housing associations or private developers and/or refurbishing and reletting the existing homes. The Council is aware of the ongoing disruption, concern and uncertainty faced by those in Sheerwater and is committed to providing clear answers around the future of the area at the earliest opportunity.

Recommendations

The Executive is requested to:

RECOMMEND TO COUNCIL That

- (i) the existing Development Agreement between the Council and ThamesWey for the delivery of the Sheerwater regeneration project be brought to an end;**

- (ii) ThamesWey do not commence any new phases following those currently under construction;
- (iii) ThamesWey be authorised to take such actions, including seeking technical and planning approvals as necessary, to bring its involvement in the project to a cost-effective end in consultation with the Council;
- (iv) authority be delegated to the Chief Executive to give an Executive Undertaking if the Planning Committee approves the changes to the affordable housing as outlined in the report;
- (v) negotiations between the Council and ThamesWey commence on an unwinding of the previously agreed barter arrangement; and
- (vi) the Special Lettings Policy adopted in 2017 be temporarily suspended until such as time as the wider scheme and Sheerwater Community Charter have been reviewed.

Reasons for Decision

Reason: To enable further work to progress that will deliver a sustainable delivery option for the Sheerwater Regeneration project whilst reducing financial risks and exposure to the Council.

The item(s) above will need to be dealt with by way of a recommendation to Council.

Background Papers: None.

Reporting Person: Louise Strongitharm, Strategic Director - Communities
Email: louise.strongitharm@woking.gov.uk, Extn: 3599

Contact Person: Louise Strongitharm, Strategic Director - Communities
Email: louise.strongitharm@woking.gov.uk, Extn: 3599

Portfolio Holder: Councillor Will Forster
Email: cllrwill.forster@woking.gov.uk

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1.0 Introduction

- 1.1 The Council's vision for Sheerwater is to create a contemporary and sustainable 'Garden Suburb' that will provide high quality, mixed tenure homes, improved open green spaces and new leisure and community facilities. This will create a stronger and more sustainable community by attracting new families and commercial enterprise to live and invest within the area. The current masterplan plans to deliver enhanced community, leisure, recreational and play facilities including swimming pools and a gym, a new community and health centre, enhanced nursery facilities, improved and accessible public spaces, retail opportunities, improved pedestrian and cycling routes, car parking and transport connections.
- 1.2 The Sheerwater Regeneration Scheme has been the subject of three planning consents. The first permission (PLAN/2015/1260) was obtained by New Vision Homes, a scheme that was subsequently abandoned as it was not financially viable. The two most recent permissions (PLAN/2018/0337 and PLAN/2018/0374) were obtained by ThamesWey Developments Limited and were granted in 2019. The permissions were the subject of Section 106 Agreements (ThamesWey) and Executive Undertakings (by the Council, as landowner).
- 1.3 On 6 April 2017, the Council appointed ThamesWey Developments Limited (TDL) to deliver the Sheerwater regeneration scheme. The scheme was intended to deliver 1,142 new residential units, along with the associated community infrastructure, over a phased programme lasting circa 9 years. The £492 million regeneration of Sheerwater began construction in summer 2019.
- 1.4 The regeneration scheme was to be funded by a mix of borrowing by the Council from the Public Works Loans Board (PWLB) with on-lending to ThamesWey, income from the disposal of new market homes and the issuance of 'free' and 'discounted' land via a barter transaction between ThamesWey and the Council. The first loan facility of £26 million for the new leisure facilities was approved in April 2018 with an additional short-term loan facility of £42 million agreed to April 2019 to enable the commencement of the first residential phase (Purple).
- 1.5 The funding framework for the remainder of the Project was agreed in February 2020. Alongside this decision, it was agreed that the scheme, including its core economic assumptions, would be subject to a mid-point review once the Blue Phase works had been tendered. This was expected to be late 2023/early 2024 and was intended to review if the project was still delivering against the operational and economic assumptions it considered when the scheme was approved.
- 1.6 In light of the significant financial challenges faced by the Council, it was agreed in February 2023 that the mid-point review would be brought forward sooner and no new phases would be committed until this review had concluded. It was the Council's intention to report the outcomes of the Review to this meeting.
- 1.7 On 7 June 2023, the Section 151 Officer issued a Section 114 Notice to the Council which estimated a General Fund deficit of £1.2 billion by 31 March 2024. The mid-point review of Sheerwater is integral to the Council's wider Improvement and Recovery Plan. Within this context, the Council cannot afford, and ThamesWey cannot rely on, the future borrowing required to complete the regeneration.
- 1.8 This report provides an interim position on the Sheerwater regeneration reflecting the very serious financial position of the Council. Further reports on the future of the Sheerwater regeneration will be brought to Executive and Council over the course of the Autumn.

2.0 Regeneration Progress to Date

- 2.1 To date, the shared use leisure facilities at Bishop David Brown School, as well as the first residential phase of 92 new homes (Purple), have all been completed. The red and copper phases are both at the advanced stages of construction with phased completions coming forward between now and December 2023. Red phase will include the provision of 68 affordable sheltered housing dwellings, the energy centre and retail units. Copper phase homes are currently on the open market. Yellow phase is also under construction, with a target completion date of late 2024.
- 2.2 The consented scheme involves the demolition of 573 homes. The majority of these were social rented homes owned by the Council. Rehousing of current social housing tenants is well advanced with 60 secure tenants and 11 non-secure council tenants still living within the regeneration area. This is a significant decrease since 2017 when there were over 300 secure tenants and 89 non-secure tenants in residence.
- 2.3 A Compulsory Purchase Order (CPO) was made on 22 October 2020 and confirmed on 16 December 2022 by the Secretary of State. General Vesting Declarations (GVD) under the CPO powers have only been used to acquire three privately owned properties of the 120 in the regeneration area. There is only one of the 120 owner occupiers and leaseholders still in occupation. Many homes are now empty and boarded up. The lack of occupation provides the Council with significant challenges in maintaining the estate, which has necessitated security patrols being put in place. It is also a poor and undesirable environment for the remaining residents to live in.

3.0 Development Partner

- 3.1 Since approval of the scheme, ThamesWey, as the Council's Development Partner, has developed the Leisure Centre with associated outdoor sports facilities, the first phase of the residential development (Purple) and is on site with the next three residential phases (Copper, Red and Yellow phases). As of 30 April 2023, ThamesWey is expected to have a net debt position of circa £185 million upon completion of the current construction phases. The peak debt is forecast to increase to £361 million at the end of the regeneration scheme.
- 3.2 However, the Council's significant financial challenges and the S114 notice means that the existing assumptions on PWLB funding are no longer sustainable and has led to the Council employing external consultants to review its asset strategy, including a review of the future delivery of the Sheerwater regeneration.
- 3.3 Whilst the review continues, it is clear that the Council, and in turn ThamesWey, will not be in a position to borrow to deliver the future phases of the development. Therefore, an interim decision is required on ThamesWey's involvement in the regeneration going forward, with the existing Development Agreement between the Council and ThamesWey being brought to an end. This decision will avoid unnecessary expenditure by ThamesWey and allow the company to commence negotiations with the Council (as the Local Planning Authority) to replan elements of the phases under construction.
- 3.4 The early curtailment of ThamesWey's involvement in the regeneration will require some adjustments to the original proposals. The strategy for the regeneration to date has focused on delivering the leisure and community benefits early in the development, including a high proportion of affordable homes in the early phases (to aid rehousing of existing residents). Therefore, the current phases provide a disproportionate number of affordable units and community and leisure investment, compared with the regeneration and planning consent when taken as a whole.

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- 3.5 The Leisure Centre alone was an investment of £22 million and the scheme intended this cost would be spread across and supported by the development and income from all 1,142 new homes. The Yellow phase under construction includes new community and health facilities, which were originally to be handed back to the Council at nil cost as part of the Barter transaction. These spaces may not be needed if the scheme stops as the existing facilities are still in place.
- 3.6 The current phase of construction in Red is skewed significantly towards affordable apartments, which was due to be rebalanced in future phases to deliver a mixed community and stable economic model. However, with ThamesWey's involvement ceasing early, this skew would concentrate the number of affordable units in one location undermining the balanced community ambition of the planning consent and disproportionately reducing the assumed income from the scheme.
- 3.7 Another key issue is the boundaries between the existing development phases and the rest of the regeneration area. The current construction phases have been designed on the assumption that the scheme would be completed as a whole and therefore, the facades, infrastructure and landscapes of the sites under construction are designed to reflect what was proposed. Should the scheme not be delivered as per the original planning approval, these interfaces will need to be redesigned to allow the current phases to function in isolation. It is anticipated that parts of Cyan phase (some of which has already been cleared) would need to be incorporated.
- 3.8 A number of options will need to be explored by ThamesWey to bring its involvement in the Sheerwater regeneration to an end in the most cost-effective way possible, to protect the company's position and the Council's as the lender. This activity will require ThamesWey to seek amendments to the current planning consents. The likely changes to be sought are:
- Rebalancing the Affordable Ratio – An application would be made to change the status of some of the general needs apartments in Red phase which are currently Affordable to Market rent, to rebalance the tenure mix to the proportions assumed across the whole 1,142 home development.
 - Changing the Affordable Rent Levels – An application would be made to vary the Section 106 Planning Obligation and the Unilateral Undertaking given by the Council in respect to the rent levels charged on the affordable homes. Rents had predominantly been limited to the equivalent of social rent levels. In order to improve the viability of the curtailed development, it is proposed that the new affordable homes in Red, Yellow and Cyan 1B phases would be charged at Affordable Rents at 80% of market rates, inclusive of services charges. These Affordable Rents would be capped at the Local Housing Allowance (LHA) rate to ensure affordability to new tenants. The affordable homes in the Purple and Copper phases will remain unchanged.
 - Repurposing the Community and Health Facility Floorspace – An application would be made to convert the space in Yellow phase currently planned for community and health facilities into additional residential units. It is anticipated this would deliver 19 more homes.
- 3.9 As described above, ThamesWey has delivered a disproportionately high amount of the community infrastructure upfront with the expectation that future residential development would subsidise this in the long term. It will therefore be necessary for there to be some unwinding of the original barter agreement to reflect a 512 home development (compared to the 1,142 in the masterplan). The original scheme intended that ThamesWey develop new retail units within the Red and Yellow phases, with the headlease transferred to the Council for a peppercorn in return for the current retail units in Blue phase. However, with Blue phase no longer proposed to be developed by ThamesWey, negotiations will be needed on where these new retail units are owned and managed in future.

- 3.10 An alternative option for the Council could be to defer the decision on ThamesWey as the development partner until the full review of the project has been completed. This will be reported to Council in the Autumn. However, delaying the decision will result in the following risks and delays:
- ThamesWey will continue to spend on future phases that will not be required - for example in the preparation of designs for future phases.
 - ThamesWey will be unable to commence negotiations with the Council as the Local Planning Authority. These decisions are necessary to improve the financial viability of the development to date.
 - Completed units on phases under construction are unlikely to be let until the outcome of the application to vary the Section 106 Planning Obligation and the Unilateral Undertaking is known. Delaying occupation will result in short-term rental losses and not meet housing needs.
 - Woodlands House residents would be unable to move to the new sheltered units in Red phase until the planning negotiations are completed. Enabling these vulnerable residents to move quickly should be a priority for the Council.
- 3.11 The decision to end ThamesWey's involvement beyond Yellow (including Cyan 1B) phases will enable key negotiations and approvals to progress and narrow the strategic options being considered for the rest of the regeneration area as part of the ongoing review.
- 3.12 The Council remains committed to delivering a regenerated Sheerwater and will be seeking the views of the local community over the coming weeks on how best to achieve this. Options could include redevelopment by housing associations or private developers and/or refurbishing and reletting the existing homes.

4.0 Special Lettings Policy and Community Charter

- 4.1 The Community Charter for the Sheerwater Regeneration was first published in January 2016 and contains the Council's core commitments to all those who are affected by the regeneration scheme.
- 4.2 Since 2017, an Independent Tenant Adviser has been in place to give secure Council tenants independent advice and a dedicated Sheerwater Regeneration Support team has supported residents with the rehousing process. A regular Newsletter produced by the Council keeps the local residents up-to-date and is produced 3-4 times a year.
- 4.3 The Community Charter awarded all Council Tenants who needed to move due to the regeneration 'Band B' priority status under the Choice Based Lettings Scheme. It states "*If you currently live in the regeneration area, but make a successful bid for an alternative property via the Choice Based Lettings Scheme before your property is needed for the regeneration project to go ahead, you will not be entitled to a Home Loss Payment or Disturbance Payments*".
- 4.4 In July 2017, a Special Lettings Policy was approved by the Executive which permitted secure tenants who wished to move out of the Regeneration Area in advance of any required relocation date would also be eligible for Home Loss and Disturbance Payment provided they surrendered the Right of Return. Consequently, compensation payments have been made to secure tenants who are willing to move outside the regeneration area in advance of their property being required for the development since 2017.

- 4.5 This policy has resulted in an unmanaged and scattered approach to vacating properties, with blocks left sparsely occupied across the estate. The HRA has lost substantial rental income and the estate looks unsightly with many boarded up properties. It is a poor and unpleasant environment for the remaining residents, who have also lived through years of disruption and upheaval. It is clear that affected residents need decisions and answers around the future of the estate as soon as possible. An update is expected to be reported to Council in the autumn.
- 4.6 In light of the Council's financial pressures and the uncertainty around the future regeneration, the Special Lettings Policy approach to early compensation payments will be temporarily suspended and the Community Charter will be subject to a review. In the interim period, affected secure tenants will remain in 'Band B' priority on Choice Based Lettings and the payment of compensation will be considered on a case-by-case basis. These will only be approved where there is a demonstrable need for the move to proceed. Compensation payments will be considered by the Financial Control Panel that is in place following the S114 notice and approved where they meet the following criteria for new spend:
- It is essential in safeguarding vulnerable people and/or delivering statutory services to the minimum level.
 - It improves the financial situation.
 - It prevents the financial situation from getting worse or recurring in the future.

5.0 Corporate Strategy

- 5.1 The Council's "Woking for All" Corporate Strategy sets out an objective to create 'safe, thriving and sustainable communities.' As part of this ambition, the Council committed to a large-scale estate regeneration project in Sheerwater, Woking to deliver over 1,100 new homes and associated community infrastructure.
- 5.2 The Council remains committed to finding a solution that enhances the Sheerwater area, but this must be affordable to the public purse.

6.0 Implications

Finance and Risk

- 6.1 The Council holds a debt portfolio of £1.8 billion for which the annual debt service costs exceed £60 million per annum. The Council has neither the resources, nor the funding, to manage the risks associated with this portfolio. Investment in ThamesWey projects, including the Sheerwater regeneration, have been wholly-funded by the Council, contributing significantly to its high levels of borrowing. The Section 114 Notice draws out the implications of this funding and decisions over the future of the Sheerwater project will be a key part of the Council's Improvement and Recovery Plan.
- 6.2 A risk register is in place for the Sheerwater regeneration project and is regularly monitored and updated by the Sheerwater Regeneration Officer Group (SROG). Access to funds and affordability of the project have been identified as high risks for some time and will remain so for those phases currently under construction.
- 6.3 Future decisions around the delivery of the Sheerwater regeneration project will need to reduce the financial risks to the Council.

Equalities and Human Resources

- 6.4 The Council has commissioned and retained a consultant to prepare and update the Equalities Impact Assessment (EqIA) to continually assess the potential impacts of the scheme on groups with protected characteristics. The initial EqIA and its accompanying Action Plan was presented and endorsed at a meeting of the full Council on 5 April 2018. Overall, the EqIA concluded that the regeneration scheme overall was considered to have a positive impact on the local population.
- 6.5 Consideration as to the Council's equality duty has formed an integral part of the evolution of the Scheme and the EqIA will be updated to assess the impact of any proposals for the future of the scheme to inform decision making.
- 6.6 There are no Human Resource impacts resulting from this report.

Legal

- 6.7 The existing Development Agreement with ThamesWey Developments Limited and ThamesWey Housing Limited will need to be varied and terminated in respect of future phases.
- 6.8 Consideration will need to be given to land ownership matters.

7.0 Engagement and Consultation

- 7.1 The evolution of the regeneration scheme has been subject to extensive consultation and engagement over the years.
- 7.2 The Council is committed to keeping residents updated on proposals coming forward and will engage with residents on the future of the regeneration scheme over the summer. Furthermore, any changes to the planning approval will be subject to statutory consultation.

REPORT ENDS