

SHEERWATER REGENERATION

Executive Summary

Following the issue of the S114 notice, the Council agreed that the existing Development Agreement between the Council and ThamesWey for the delivery of the Sheerwater regeneration project be brought to an end and no new phases would commence following those currently under construction. As completion of the current phases requires further borrowing, a detailed business case has been developed to support the Council's funding request to Government. This report provides an update on the funding request to Government; a summary of the results of the public consultation undertaken over the summer and the proposals for the remainder of the regeneration area.

Three residential phases are currently under construction with Copper and Red phases due to complete this year and Yellow phase due to complete in late 2024. A detailed business case for funding of £57.7 million has been developed to support discussions with the Government in order to complete these three active construction phases, with the outcome due shortly.

The Council received a total of 507 responses to the survey on the future of the Sheerwater regeneration area. Generally, the preferred option was to keep and refurbish the houses in the area, along with the sheltered accommodation at Woodlands House. However, demolition and selling the land for redevelopment was the preferred option for the blocks of flats and the retail units. The majority of respondents rated the existing community facilities as either Good or Reasonable or they did not know, with the exception being the Retail Units.

It is proposed that the Council progress the refurbishment of houses on Woodlands Park, Hennessey Court and Spencer Close, along with the sheltered housing at Woodlands House. This is broadly in line with the views of respondents to the consultation. It is also considered that the block of flats at 129 – 139B Devonshire Avenue near Broadmere Primary School would have limited development potential due to the constrained site and therefore refurbishment is likely to be the only viable option. It is estimated that retaining these 106 homes within the Housing Revenue Account (HRA) will generate additional net income to the HRA of circa £650,000 per annum from 2024/25. The costs of these refurbishments will be met from capital receipts from Red, Yellow and Purple land transfers or disposal of other HRA units within the Sheerwater regeneration area. It may also be possible to utilise some Government grant funding through the Local Authority Housing Fund (LAHF).

The Council appointed advisers, Avison Young, to help assess the future options for the Sheerwater regeneration area. They have recommended that the Council offer all the remaining units (excluding the circa 106 homes to be retained in the HRA) to the market. This will enable offers to be received for both redevelopment or existing use so it would enable robust market testing and allow the Council to fully evaluate the offers. In addition, an exercise to consolidate asset ownership between ThamesWey and the Council will be needed, both within the areas to be retained and areas to be disposed of.

Recommendations

The Executive is requested to:

RECOMMEND TO COUNCIL That

- (i) the progress on Red, Yellow and Copper phases be noted;
- (ii) the Council retains and refurbishes circa 106 homes within the Sheerwater Regeneration area as set out in Section 5 of the report;
- (iii) the costs of refurbishment, estimated at £2.9 million, be covered by capital receipts and Local Authority Housing Funding (if appropriate);
- (iv) the Strategic Director – Communities, in consultation with the Portfolio Holder for Key Projects, be authorised to agree proposals to consolidate ownership of vacant housing assets between ThamesWey and the Council; and
- (v) the residual land and properties within the Sheerwater Regeneration area (excluding those to be retained) continue to be vacated and offered to the market for disposal, as set out in Section 4.7, to maximise the capital receipt.

Reasons for Decision

Reason: To enable 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.
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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.
- 1.2 The £492 million regeneration scheme was intended to be developed by ThamesWey Developments Limited (TDL) to deliver 1,142 new residential units, along with the associated community infrastructure, over a phased programme lasting circa 9 years.
- 1.3 Following the issue of the S114 notice on 7 June 2023, it became clear that the Council cannot afford, and ThamesWey cannot rely on, the future borrowing required to complete the regeneration. Subsequently, in July 2023, the Council agreed that the existing Development Agreement between the Council and ThamesWey for the delivery of the Sheerwater regeneration project be brought to an end and no new phases would commence following those currently under construction.
- 1.4 Since the July 2023 report, a consultation has been undertaken with residents and stakeholders in the Sheerwater area to understand their views on the future of the regeneration area. Advice has also been received from consultants, Avison Young, on the potential options for the regeneration area. As completion of the current phases require further borrowing, a detailed business case has been developed to support the Council's funding request to Government.
- 1.5 This report provides an update on the funding request to Government to complete the phases under construction; a summary of the results of the public consultation and the proposals for the remainder of the regeneration area.

2.0 Update on ThamesWey Phases Under Construction

- 2.1 Three residential phases are currently under construction with Copper and Red phases due to complete this year and Yellow phase due to complete in late 2024.
- 2.2 Copper phase consists of 88 houses, of which 13 are affordable and 75 are proposed to be disposed of on the open market. As of 11 September 2023, 42 units have been completed by the construction contractor and handed over to ThamesWey. The completion and hand over of the remaining units is due to complete by December 2023. To date, the first eight affordable units have all been allocated and are occupied. 9 market units are under offer, of which one has completed and two have exchanged contracts. There are £4.8 million in contractual construction payments remaining to complete the phase.
- 2.3 Red Phase is a medium rise development consisting of ten town houses, seven maisonettes, 68 sheltered one-bedroom apartments and a block of 39, one, two and three bedroomed apartments. The phase also includes the energy centre and six ground floor retail units. This phase was commenced in May 2020 and is due for handover to ThamesWey in late October 2023. This entire phase is currently proposed to be rented out upon completion. The cost to complete Red is £2.85 million.
- 2.4 Yellow Phase is a medium rise mixed use development consisting of 168 apartments (consisting of 102 affordable units and 66 open market units), some retail units and community spaces. Following the Council's decision to bring the Development Agreement to an end, ThamesWey Developments Limited intends to apply to the Local Planning Authority for the conversion of the consented new community space into 19 additional residential units. Work commenced on this phase in October 2022 and is due to be completed in December 2024. The cost plan shows £40.8m in contractual construction payments are required to complete the phase.

- 2.5 A detailed business case for funding of £57.7 million (including land payments and professional costs) has been developed and is being discussed with Government in order to complete these three active construction phases of the Sheerwater regeneration. The business case clearly articulates that completion of these phases generates a significant uplift in value compared to ceasing development. It also sets out the wider social and economic benefits, including the contribution to meeting housing needs. A decision on the funding is expected by early October 2023.
- 2.6 Work is ongoing to rebalance the community infrastructure provision delivered by ThamesWey in the original barter agreement to reflect a smaller development (compared to the consented masterplan), including negotiations on where the new retail units in Red and Yellow phases will be owned and managed in future.

3.0 Consultation Outcome

- 3.1 Following the decision that ThamesWey would not proceed with any new phases of the regeneration project, the Council launched a public and stakeholder consultation regarding the future of the Sheerwater Regeneration Project. This ran from 7 August to 17 September 2023. The online survey was widely promoted on social media with hard copies sent out to 1,300 households living in or around the regeneration area. The survey sought views on what should happen with the remainder of the site and the vacant properties previously earmarked for demolition.
- 3.2 The Council received a total of 507 responses to the survey. 40% of respondents were residents living in the area (but outside the regeneration area) and 25% were residents living within the regeneration area (14% Council tenants and 11% private tenants). The remaining responses were from other interested parties.
- 3.3 Respondents were asked to give their views on whether the remaining areas should be redeveloped or retained and refurbished. Generally, the preferred option was to keep and refurbish the houses in Woodlands Park (60%) and Hennessey Court and Spencer Close (52%), along with the sheltered accommodation at Woodlands House (54%). It was more evenly split for houses in Dartmouth Green, Dartmouth Avenue and Dartmouth Path and Wakehurst Path, Blackmore Crescent and Bunyard Drive, with 50% supporting refurbishment. Demolition and selling the land for redevelopment was the preferred option for the blocks of flats in Dartmouth Avenue and Devonshire Avenue (68%); flats in Spencer Close, Forsyth Path and Loder Close (65%) and the retail units with flats above in Dartmouth Avenue (66%).
- 3.4 Views were more evenly split on the type of organisation that should lead on any further redevelopment with 292 respondents favouring private developers and 283 respondents selecting a housing association.
- 3.5 Respondents were also asked how they rated the quality of the existing community facilities within the regeneration area. The results were mostly positive, with the majority of respondents rating the different facilities as either Good or Reasonable or they did not know. The Parkview Community Centre had the fewest (21%) rating the facility as Poor, followed by the Foodwise/Nursery Building (24%) and Health Centre Building (25%). There was slightly higher dissatisfaction with the recreation facilities (Multi-Use Games Area, recreation ground, play area and skate park), ranging from 31% to 32% rating them as Poor. The only community facility where there was widespread dissatisfaction was the retail units, with 70% of respondents rating the buildings as Poor.
- 3.6 A summary of the consultation results is included in Appendix 1.

4.0 Strategic Advice

- 4.1 Following a competitive tender process, consultants, Avison Young, were appointed in May 2023 to help support the Council in assessing the future options in respect of the Sheerwater regeneration area.
- 4.2 Their brief was to advise the Council on the best strategic option for Sheerwater to achieve the following objectives:
- Reduce Council borrowing;
 - Mitigate and minimise financial risks to the Council;
 - Protect financial returns to the Council to support its financial resilience and sustain a level of financial independence;
 - Introduce alternative equity investment and options for alternative delivery vehicles;
 - Deliver high quality mixed tenure homes, including affordable homes;
 - Retain or enhance community infrastructure;
 - Support a sustainable Housing Revenue Account (HRA) for the Council's remaining housing stock.
- 4.3 As set out in the paper to Council in July 2023, the Council has a predicted HRA revenue deficit of circa £1.3 million for 2024/25. This deficit is in part as a result of the Council rehousing residents from existing Sheerwater homes, as part of the land assembly plans for future redevelopment. However, given the phasing plan was always over a number of years, the Council currently has a housing stock that needs to be maintained and HRA debt on the properties to be serviced, with significantly reduced income coming from these homes. This is not a financially sustainable position for the Council and as such resolving this imbalance was seen as a critical requirement.
- 4.4 Avison Young were therefore asked to consider an option to retain circa 100 HRA homes to help address the revenue deficit. This will leave significant parcels of land for disposal.
- 4.5 The consultants then considered the optimal outcome for the remaining areas of the regeneration area looking at both the value of the existing housing in situ and the land value as a redevelopment site.
- 4.6 Avison Young undertook some initial market engagement and believe there would be scope for an investor to take all of the units as a single lot. Avison Young do not consider that there would be a sufficient increase in density to make the land value higher for redevelopment compared to the existing use value, but consider this should be tested through a marketing campaign. It should be noted that Avison Young did not undertake any internal inspections as part of their review, so further testing is required of these assumptions.
- 4.7 It is recommended that the Council offer all units (excluding the homes to be retained for refurbishment) to the market as part of a single lot or in parcels. This would then enable offers to be received for both redevelopment or existing use so it would enable robust market testing and allow the Council to fully evaluate the offers. In addition, an exercise to consolidate asset ownership between ThamesWey and the Council will be needed, both within the areas to be retained and areas to be disposed of. This is likely to result in some property exchanges to make it easier and more cost effective to manage and maintain homes or dispose of (as appropriate).
- 4.8 Any disposals will be based on the existing infrastructure and community facilities being retained.

5.0 HRA Refurbishment

- 5.1 Subject to the property rationalisation with ThamesWey referred to in paragraph 4.7 above, it is proposed that the Council looks to retain and refurbish houses on Woodlands Park, Hennessey Court and Spencer Close, along with the sheltered housing at Woodlands House. This is broadly in line with the views of respondents to the consultation. It is also considered that the block of flats at 129 – 139B Devonshire Avenue near Broadmere Primary School would have limited development potential due to the constrained site and therefore refurbishment is likely to be the only viable option. There are currently 106 HRA-owned within these areas (of which 56 are currently occupied), with the remainder owned by ThamesWey.
- 5.2 Analysis of target social rents for retaining 106 HRA homes suggests additional net income to the HRA of circa £650,000 per annum from 2024/25 (increasing annually by CPI + 1%). This would make a significant contribution towards bridging the HRA deficit.
- 5.3 Many of these homes have been empty for some time and are in poor repair. The cost to undertake essential works to these homes has been calculated at £2.9 million. This level of capital investment is unlikely to be funded through borrowing and as such, it will be necessary to use capital receipts from Red, Yellow and Purple land transfers or disposal of other HRA units within the Sheerwater regeneration area to offset the cost of the refurbishment works required. The work will need to be brought forward in phases aligned to the timing of capital receipts. It is anticipated that many of the vacant homes would be ready to let by spring 2024.
- 5.4 In addition, the Council has been allocated £2,392,259 of Government Local Authority Housing Fund (LAHF) grant funding to deliver 15 homes for families with housing needs who have arrived in the UK via Ukrainian and Afghan resettlement and relocation schemes. The Government expects this stock to become available to support wider local authority general housing and homelessness responsibilities after the immediate needs of the eligible cohort have been addressed. The Council has been granted an extended deadline of 29 March 2024 to deliver the homes under the funding agreement. It was originally intended that this funding be used to acquire 15 properties. However, the funding prospectus does allow local authorities to use the funding towards refurbishing and bringing back into use long-term void housing stock. It may be possible to use some of the LAHF grant funding towards refurbishing homes in Sheerwater for this purpose, subject to confirmation that this meets the grant conditions.

6.0 Corporate Strategy

- 6.1 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.
- 6.2 The Council remains committed to finding a solution that enhances the Sheerwater area, but this must be affordable to the public purse.

7.0 Implications

Finance and Risk

- 7.1 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 predominantly 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. The funding request to continue with the phases under construction is consistent with the planning principles in the July 2023 Medium Term

Financial Strategy (MTFS) Report and addendum to the MTFS Report to the September meeting of the Executive and Council.

- 7.2 As set out in this report, the proposal seeks to reduce the financial risk to the Council, along with supporting a more financially viable Housing Revenue Account and generating capital receipts through disposals. The Council's debt is mainly General Fund, not HRA, and requires a much broader solution through discussion with Government. The use of the capital receipts of £2.9 million to fund the refurbishment of properties in the HRA is an appropriate use of HRA funds that supports a more sustainable HRA whilst the solutions to General Fund debt are considered. Without such an approach to a sustainable HRA, the Council's s151 officer may have to consider a S114 for the HRA in 2024/25.
- 7.3 A risk register is in place for the Sheerwater regeneration project and is regularly monitored and updated by the Sheerwater Regeneration Officer Group (SROG).

Equalities and Human Resources

- 7.4 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. Overall, the EqIA concluded that the regeneration scheme was considered to have a positive impact on the local population.
- 7.5 Bringing 106 homes back into use will assist the Council in meeting its homelessness and housing needs for the most vulnerable. The completion of Red phase, whilst retaining Woodlands House, will also result in increased accommodation options for vulnerable and older people.
- 7.6 There are no Human Resource impacts resulting from this report.

Legal

- 7.7 Local authorities have the freedom to dispose of their land in any manner that they wish subject to certain provisos prescribed within the following major Acts, other Acts and General Consents:
- s123 (Disposal of land by principal councils) of the Local Government Act 1972;
 - s32 of the Housing Act 1985 (as amended); and
 - s25 of the Local Government Act 1988.
- 7.8 Under s123 of the Local Government Act 1972, the Council has wide powers for the disposal of its property assets. The overriding requirement is to obtain the best consideration that can be reasonably obtained for the land.
- 7.9 Under s32 of the Housing Act 1985 (as amended), the local authority has the power to dispose of land and dwellings held for housing purposes. Secretary of State consent will be required unless the disposal is covered by the General Housing Consents 2013.
- 7.10 The proposal to dispose of vacant council homes and land is permitted under General Consent A, which allows a local authority to dispose of land (including vacant homes) for a consideration equal to its market value without Secretary of State consent.
- 7.11 Where a Council is stock holding and has a Housing Revenue Account (HRA), General Consent A limits the number of disposals to a body in which the local authority owns an interest in to 5 disposals in a financial year. This will be relevant when considering properties to be exchanged with ThamesWey.

8.0 Engagement and Consultation

- 8.1 The evolution of the regeneration scheme has been subject to extensive consultation and engagement over the years.
- 8.2 The proposal has been informed by the results of public and stakeholder consultation on the future of the Sheerwater Regeneration Project, which ran from 7 August to 17 September 2023. The results are summarised in Section 3 of the report and in Appendix 1.
- 8.3 In response to the consultation feedback, this report sets out proposals to:
- Retain and refurbish circa 106 homes in Woodlands Park, Hennessey Court and Woodlands House sheltered housing. This approach was supported by the majority of respondents to the survey.
 - Offer to the market the residual land and properties within the regeneration area. This will particularly apply to the blocks of flats, where there was strong support from respondents for the land be sold and redeveloped. There was no strong view on whether the land should be sold to a housing association or private developer.
 - Retain the existing community facilities, which were generally considered to be in a good or reasonable condition. As part of the Council's review of discretionary services, alternative ways of managing these valued facilities will also be explored.

REPORT ENDS