

SHEERWATER REGENERATION SCHEME – FUNDING REQUEST

Executive Summary

This report contains an update on the Sheerwater regeneration scheme, and seeks Council's approval for the release of funding for the first phase of the residential element of the regeneration.

Recommendations

Council is requested to:

RESOLVE That

- (i) the position regarding implementation of the Sheerwater regeneration scheme be noted;
- (ii) a short term loan facility of £42m, on terms previously approved by Council for Sheerwater, be released to Thamesway Developments Limited to enable the first residential phase, 'Purple' to be implemented;
- (iii) on completion of the construction of the 'Purple' phase, a 50 year loan facility of up to £48.4m be made available to Thamesway Housing Limited at a 0.5% margin over the Council's borrowing costs;
- (iv) a Sheerwater Regeneration Delivery Board be created to replace the existing Sheerwater Regeneration Project Board, and that all Canalside Councillors will be allowed to attend and contribute to the Board, and
- (v) the role of the Sheerwater Regeneration Oversight Panel be refined to focus on the social, environmental and economic issues for the residents and businesses in Sheerwater, both inside and outside the red-line area.

Background Papers: None.

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Sheerwater Regeneration Scheme – Funding Request

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1.0 Introduction

- 1.1 This report contains an update on the Sheerwater regeneration scheme, and seeks Council's approval for the release of funding for the first phase of the residential element of the regeneration.

2.0 Update on Sheerwater Regeneration Scheme

2.1 Planning Application

- 2.2 On 27 July 2016, the local planning authority approved a hybrid planning application, submitted by New Vision Homes, for the Sheerwater regeneration scheme (PLAN/2015/1260). A description of the approved development is appended as Appendix 1.

- 2.3 On 6 April 2017, the Council appointed Thameswey Developments Limited ("TDL") to deliver the Sheerwater regeneration scheme. As the Council's appointed developer, TDL submitted two planning applications to the local planning authority. These are:-

(i) PLAN/2018/0374

This is a Section 73 application, which proposes minor, but material, amendments to the existing hybrid planning permission by the removal or variation of conditions attached to that permission. A description of the application, as submitted, is appended as Appendix 2.

(ii) PLAN/2018/0337

This is a hybrid application, which seeks part outline planning permission and part full planning permission for the proposed Sheerwater regeneration scheme. A description of the application, as submitted, is appended as Appendix 3.

Compared to the previously approved scheme (PLAN/2015/1260), the proposed development under this application (PLAN/2018/0337) would:-

- Increase the amount of open space delivered under the masterplan;
- Increase the amount of car parking available for the proposed new homes;
- Introduce new surface car parks for the community centre hub, the existing Primary School, the existing Secondary School, as well as improving the layout of the new car park for the Leisure Centre and negating the need to demolish 4 existing dwellings;
- Relocate the community facilities at the centre of the development adjacent to the central park and opposite the community car park;
- Optimise the development potential of this urban site by increasing the number of homes to be provided. The housing mix would be aligned to meet the local housing need, whilst still providing a significant proportion of family sized homes (an additional 158 units above that approved under PLAN/2015/1260); and
- Improve the overall design approach of the masterplan, omitting unnecessary highway circulation space, to deliver a high quality walkable neighbourhood comprised of different character areas that connect to the wider estate.

- 2.4 The two planning applications are due to be considered by the Planning Committee on 9 April 2019.

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2.5 Normally, if planning permission is granted by the local planning authority for a development of this nature, it would be subject to the prior completion of a Section 106 Agreement. This would impose obligations which are not capable of being the subject of conditions attached to a planning permission. The Council (as landowner) cannot enter into a Section 106 Agreement with itself (as the local planning authority). The Executive undertook, at its meeting on 28 March 2019, to give effect to the prospective requirements of the local planning authority as set out in Appendix 4 (if the local planning authority granted planning permission).

2.6 New Leisure Facilities

At its meeting on 5 April 2018, Council agreed the release of funds so that TDL could construct the approved leisure and recreational facilities, as the first stage of the full regeneration of Sheerwater. The new leisure complex at Bishop David Brown School includes new sports pitches and a leisure centre. The leisure centre will provide the local community and the school with a top class swimming pool and recreational space. There will also be new parking facilities and fencing, which will improve the number of spaces available to the leisure centre, and improve the safety of the school. Following positive discussions with representatives of the Bishop David Brown School, it is anticipated that construction can start in June 2019.

2.7 Purchase of Privately Owned Residential Properties

2.8 It is necessary to purchase 120 privately owned properties in order to carry out the regeneration. As at 26 March 2019, the owners of 111 properties were engaging positively with the Council. Efforts are being made to reach agreement with the 9 remaining property owners before the Council considers whether to make a compulsory purchase order.

2.9 Council Tenants

Initially, there were 308 secure tenants in the red-line area. The Council's housing team has visited 264 secure tenants to provide advice and assistance on the options available to them. Considerable efforts have been made to contact the remaining 44 secure tenants. This will continue. To date, 117 secure tenants have successfully moved out of the regeneration area.

2.10 Businesses within the Regeneration Area

2.11 Viable businesses will be given the opportunity to relocate to alternative premises. The alternative premises may be within, or outside, the regeneration area (depending on the nature of the business concerned). Businesses which are not viable will be paid compensation to leave.

2.12 Project Governance

2.13 In the event that (i) planning permission is granted, by the local planning authority, on the amended planning applications and (ii) Council agrees to release the funding for the first phase of the residential development, it will be necessary for Council to determine the project governance arrangements for the implementation of the Sheerwater regeneration project.

2.14 Currently, two bodies have some oversight of the regeneration project.

2.15 The Sheerwater Regeneration Oversight Panel has oversight of:-

- (i) implementation of the Sheerwater regeneration project, and
- (ii) social, environmental and economic issues for the residents and businesses in Sheerwater, both inside and outside the red-line area, so as to build upon its earlier status as a Prime Place.

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- 2.16 The Sheerwater Regeneration Project Board is responsible for the management of the governance of the detailed implementation of the Sheerwater regeneration project by TDL.
- 2.17 Once the construction phase is reached, splitting/duplicating responsibility for the governance of the Sheerwater project between the Sheerwater Regeneration Oversight Panel and the Sheerwater Regeneration Project Board is not sensible. It is proposed that the role of the Sheerwater Regeneration Oversight Panel is focussed on the social, environmental and economic issues affecting Sheerwater residents and businesses. Member oversight of the implementation of the Sheerwater regeneration project would be carried out by a new body, the Sheerwater Regeneration Delivery Board. The Sheerwater Regeneration Project Board would cease to exist.
- 2.18 Officer oversight of the Sheerwater regeneration project would continue to be exercised by the Sheerwater Regeneration Officers' Group, which meets on a regular monthly basis (and more frequently, when required). If planning permission is granted, the Leader of the Council would attend these meetings. This will ensure that there is appropriate liaison between the Officers' Group and the new Sheerwater Regeneration Delivery Board.
- 2.19 The changes to the governance arrangements take account of comments made by the Sheerwater Regeneration Oversight Panel on 27 March 2019. The Oversight Panel supported the change in its role (i.e. focussing on social, environmental and economic issues for the residents and businesses in Sheerwater, both inside and outside the red-line area).
- 2.20 The detailed terms of reference for the Sheerwater Regeneration Delivery Board would be adopted at its first meeting in the new Municipal Year. Subject to observing proportionality following the May 2019 Borough elections, the Board would comprise seven Members (four Conservatives, one Liberal Democrat, one Labour and one Independent). However, it is recognised that all of the Sheerwater regeneration is in one ward (Canalside). Consequently, all Canalside councillors will be invited to attend, contribute to, but not vote at Board meetings. The Sheerwater Regeneration Oversight Panel also requested that Group Leaders should, when deciding who to appoint to (what will now be) the Sheerwater Regeneration Delivery Board, appoint a Canalside councillor (if that councillor was a member of the Group concerned). This can be addressed through the Selection Panel process.

3.0 Funding Request

- 3.1 TDL has requested the Council to release funds for the first phase of the residential development. This is referred to as the "Purple phase."
- 3.2 The Purple phase comprises 92 residential properties, 46 of which will be "affordable" (let at a social rent). The remaining 46 will be let at market rents. The tables below give further details of the units.

Purple (parcel A)

HOUSING MIX	Market	Affordable	Total
Studio	0	0	0
1 bed	14	14	28
2 bed	27	25	52
3 bed	5	7	12
Total	46 (50%)	46 (50%)	92

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PARKING	Unit type	Number of units	Proposed Ratio	Spaces required	2018 Parking Standard requirement
Apartment	1 bed	28	0.5	14	Yes
	2 bed	52	1	52	Yes
	3 bed	2	1	2	Yes
Town House	3 bed	10	2	20	Yes
Total		92		88	
Total allocated spaces proposed				80	
Total unallocated spaces proposed				8	
Total proposed				88	

3.3 The drawing attached to this report (Appendix 5) shows the proposed dwellings.

Details of Funding Request

3.4 The Purple phase represents the first area of residential development for the Sheerwater regeneration scheme. The Council has previously approved £5m to further work up the detail of the project, and £26m to construct the leisure and recreational facilities at the Bishop David Brown site. As set out monthly in the Green Book, the Council has also incurred costs (totalling £10.8m February 2019) which are to be reimbursed by the project. Acquisition of residential properties is ongoing with costs totalling £36.9m at the end of February 2019 and 78 fully completed sales at that date.

3.5 The business proposal submitted by TDL for the 92 units included in the Purple phase is summarised in the table below:

Cost of Development	
Land Acquisition Cost	7,399,016
Building Works	30,316,350
Building Contingency	606,327
Project Management Including consultants	2,297,103
Loan Interest (during Construction)	1,136,546
TOTAL	41,755,343

3.6 The cost per unit includes the cost of acquiring the properties in accordance with the Community Charter, demolition and construction including parking. It is therefore greater than would otherwise be the case for an empty site with a simple construction.

3.7 The Thamesway model demonstrates that, over 50 years, this phase is sustainable to develop in isolation with a final cash balance of £6.3m. The total cost of construction, including interest during construction, is £41.8m with a peak debt at year 22 of £48.4m. Assumptions are in line with those applied to other Thamesway Housing Limited (“THL”) schemes where applicable.

3.8 A loan facility of £48.4m is therefore requested being a £42m short term loan to be provided to TDL during construction on the same terms as previously agreed for Sheerwater attracting a 1% arrangement fee, and a 50 year annuity loan to THL to acquire the properties on completion on the normal THL terms but with a 0.5% margin as previously agreed for Sheerwater. The Council has already advanced £4.4m to THL for acquisition of property on this part of the development site. For management purposes it is preferable to report all the costs attributable to the phase together. If the first residential phase is approved the loans

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allocated for property acquisitions can be reduced by £4.4m relating to properties in Purple which will be reallocated against the Purple phase loan facility.

- 3.9 While this phase of the scheme in isolation can be balanced over an acceptable time period, it provides no contribution to the leisure facilities and other infrastructure involved in the overall Sheerwater project. When the leisure element was approved by Council it was accepted that there was a risk to the Council if the rest of the regeneration, which would fund the facilities, did not progress. The risks outlined at that stage remain relevant and the approval of Purple does not mitigate these risks. If the remaining scheme does not progress, or does not contribute to the infrastructure costs, it is likely that all non-essential Investment Programme schemes would need to be postponed until further resources became available.
- 3.10 The Council's approval of the overall scheme in April 2017 was based on the scheme at that time. Since TDL have taken on the scheme the plans have moved on and the Purple phase now includes properties to be held for rent at market rents. The previous modelling assumed all market properties would be for sale. The addition of market rental properties will increase the net debt held in the long term. As the model for this particular element is different to that for the overall scheme, it is appropriate to consider approval in isolation pending the review of the full model.
- 3.11 It is proposed that once planning permission has been determined later this month, a review of the full Sheerwater model be completed. The review would determine revised borrowing facilities for the scheme and would allow time for the direction of Brexit to be clearer which it is envisaged will provide more confidence in future cost estimates.
- 3.12 In the meantime, approval of this first element of the scheme, will enable construction of the residential scheme to commence, the community to see the regeneration starting on site and will confirm to residents and contractors the Council's clear commitment to the scheme.
- 3.13 The Council previously determined that the Finance Task Group should review the Sheerwater model prior to the scheme progressing. As the Purple phase is being considered as a stand-alone request this is not appropriate, but they will be consulted on the full Sheerwater model when completed.

4.0 Implications

Financial

- 4.1 These are set out in this report.

Human Resource/Training and Development

- 4.2 None.

Community Safety

- 4.3 None.

Risk Management

- 4.4 These are set out in this report.

Sustainability

- 4.5 None.

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Equalities

4.6 None.

Safeguarding

4.7 None.

5.0 Conclusions

5.1 It is reasonable for the Council to release the funding requested by TDL so that the residential element of the Sheerwater regeneration project can start. This will give certainty to residents that the scheme is being implemented.

REPORT ENDS