

COUNCIL - 6 APRIL 2017

SHEERWATER REGENERATION SCHEME PROPOSALS

Summary

The Sheerwater Regeneration proposals obtained Planning Consent on 27 July 2016.

In the preparation of the report the views expressed at the Executive meeting on 23 March 2017 have been taken into account.

This report explores five options that the Council could consider and concludes with a recommendation to implement the proposals through the Council's arms length development company, Thamesway Developments Limited, (TDL) with the new affordable housing being owned by Thamesway Housing Limited (THL) in a subsidiary solely for the new affordable homes in Sheerwater. Accordingly the Council needs to authorise the inclusion of the Sheerwater Regeneration project in the Council's Investment Programme.

It is proposed that the funding for TDL to implement the Sheerwater Regeneration will be provided through a "Thamesway **Development** Revolving Loan Facility" (TDRLF) of up to £76m. The extent to which TDL may use the facility will be determined by the Executive in respect of each phase of the development but the total facility will not be able to be increased without Council approval. The TDRLF will be fully repaid by the end of the development.

During the development Thamesway Housing Limited, through a subsidiary it will establish for Sheerwater, will acquire the completed affordable homes. It is proposed that Thamesway Housing Limited be provided with an initial "Thamesway **Housing** Revolving Loan Facility" (THRLF) during the period over which it acquires properties from TDL; the Loan facility will be for 75% of the acquisition cost with the remainder being Share Capital. During the acquisition phase the Council will invest Share capital in the Thamesway Housing subsidiary equal to 25% of the cost of acquisition. Upon the acquisition of all the properties the THRLF is repaid and the THL subsidiary is refinanced by a Sheerwater Regeneration Finance Facility; being 75% of the acquisition cost within an aggregate sum of £96.6m.

These long term capital arrangements are in accordance with existing Council Policy for financing Thamesway Housing Limited and will require the investment of some £32.5m in Share Capital over the eight year development period.

The Thamesway Development Revolving Loan Facility will be for up to eight years and be subject to a 1% facility arrangement fee payable at the outset, a fee of £760,000, and subject to PWLB short term interest rates, depending on the drawdown period but not exceeding 8 years, without an interest margin.

The Thamesway Housing Revolving Loan Facility, representing 75% of the cost of the acquisition of the affordable homes developed by Thamesway Developments Limited, will be for up to eight years and subject to PWLB short term interest, depending on the drawdown period but not exceeding 8 years, without an interest margin or an arrangement fee, multiplied by 1.33334; thereby providing a weighted loan rate which fully meets the interest cost of providing the share capital in accordance with normal arrangements.

The Sheerwater Regeneration Finance Facility will be charged at the PWLB 50+ year Annuity Rate plus 0.5% multiplied by 1.33334; thereby providing a weighted loan rate which fully meets

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the interest cost of providing the share capital in accordance with normal arrangements which means that the Loan is repaid within 50 years of the completion of the new affordable homes.

The provision of these capital arrangements will, over time, require the Council to borrow some £129m to cover the provision of Loan Finance and Share Capital. This new borrowing will need to be made over the next eight years. However it is not necessary to review the Council's Borrowing Limits for 2017/18, but the profile of the need for funds over the eight years will be taken into account by the Chief Finance Officer when advising the Council on the Borrowing Limits when determining the Annual Budget and Investment Programme.

The report also seeks authority for work to be commenced on the preparation of the Compulsory Purchase Order (CPO) which will be submitted to Council, for approval, in February 2018. A Grant of £285,000 has been obtained from Central Government to assist in defraying the estimated cost of £313,600 of preparing the CPO.

The report seeks Council authority for Thamesway Housing Limited to acquire private properties within the development area, in accordance with the terms of the Sheerwater Community Charter, and to transfer the properties to Thamesway Developments Limited as and when required for redevelopment. From the time of acquisition to the time required for redevelopment the properties will be let on an assured shorthold basis at open market rent. Thamesway Developments Limited will be responsible for providing an intercompany loan to the Thamesway Housing subsidiary for these properties from within its Thamesway Developments Revolving Loan Facility at a reduced charge that will ensure Thamesway Housing Limited has no net cost in managing the properties upon TDL's behalf.

The report also seeks Council authority to enable the Executive to approve a Special Lettings Policy for Sheerwater which would allow Secure Tenants, within the regeneration area, to move early, subject to availability of suitable properties, even though families may be adequately housed.

Finally this report seeks authority being delegated to the Executive to approve the detailed planning submission(s) and financial arrangements for each Phase, or sub phases, subject to the overall framework approved by the Council.

The delegation to the Executive enables the detailed financial arrangements for part of Phase 1 (that part which has obtained Planning Consent) to be submitted to the Executive for approval following the receipt by Thamesway Developments of tenders for all the work included in the phase. The report to the Executive will also include an update of the overall cost plan being submitted to demonstrate that the overall development remains viable. If the detailed tender exercise for Phase 1 enables the update of the overall scheme to remain within the parameters set by Council then the Executive will be able to authorise Thamesway Developments to proceed; if not within the overall framework a recommendation will need to be made to Council to review the parameters for the regeneration. Phase 1 includes the artificial pitch and in accordance with the Planning Consent this may be implemented in advance of the remainder of Phase 1; accordingly TDL may request early release of funds to implement that element.

Concurrently with seeking tenders for the Phase 1 (A, B & C) implementation Thamesway Developments will seek detailed Planning Consent for the balance of Phase 1 (D & E) and Phase 2. The preparation of the Phase 1 (D & E) and Phase 2 detailed plans will require further public consultation and provides the time for reflection on the detail of that phase; those phases include the existing recreation ground. When prepared, following the further public consultation, the detailed plans will be presented to the Executive to authorise the submission of the Planning Application.

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This approach will equally apply to subsequent Phases, or sub phases, both in respect of the detailed planning application and the financial arrangements. This mechanism enables a pause and review opportunity during each phase or sub phase of the overall regeneration but within the framework set by Council to ensure the overall delivery of the regeneration proposal. All variations would need to demonstrate that the economic viability of regeneration is maintained within the parameters set by the Council. Phases or Sub Phases will need to take into account the conditions set out in the Planning Consent but may vary in scale as considered appropriate by TDL; however whatever size the Phase or Sub Phase is the same process of securing Executive authority will be required.

This approach enables the Council to set the framework for the Regeneration of Sheerwater and for the detail to be determined by the Executive, in respect of the commercial arrangements, and the Planning Committee, in respect of the Planning details.

It is proposed that the Governance of the detailed implementation by Thamesway Developments will be through a Project Board. This should include Council appointed Member Directors to the relevant Thamesway Companies and other Members on a similar basis to the Panel established for Victoria Square with a total of seven Members representing all Groups on the Council; four Conservative, one Liberal Democrat, one Labour and one Independent Member.

The Sheerwater Oversight Panel will continue to “oversee” the improvements in Sheerwater both within the red line redevelopment area and the wider area in accordance with its current remit.

In considering the recommendations set out herein the Council will need to take account of the outcome of the consultation with Secure Tenants in respect of which a report will be tabled at the Council meeting on 6 April following the assessment of the consultations which close on 3 April.

One additional issue that Officers need to seek Council approval is the issue of retained Right to Buy (RTB) receipts. As outlined in paragraphs 12.16 to 12.23 of the report the Council is now obliged to repay some of the previously retained receipts and it is not economically viable to continue to retain the receipts. Accordingly the Council is requested to authorise withdrawal from the retention scheme and authorise the Chief Finance Officer to determine on a quarterly basis whether or not it is advantageous to retain RTB receipts.

Reasons for Decision

To enable the Council to proceed with the implementation of the approved plans for the Regeneration of Sheerwater.

Recommendations

The Council is requested to:

RESOLVE That

- i. the Sheerwater Regeneration project be included in the approved Investment Plan at a total cost of £372m and, based on the proposals set out in this report, financed by sale of properties and total borrowing by the Council of £129m to finance the long term investment of Share Capital (£32.5m) and the Loan Facility (£96.6m) for Thamesway Housing Limited;
- ii. Thamesway Developments Limited be appointed to deliver the Regeneration of Sheerwater in accordance with the Planning Consent obtained on 27 July 2016;

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- iii. a Thamesway Development Revolving Loan Facility of up to £76m, for a period not to exceed eight years, at an interest rate based on the relevant PWLB rate for the relevant drawing and subject to an Arrangement Fee of £760,000 (1%) payable at the commencement of the facility be approved;
- iv. Thamesway Housing Limited, through a subsidiary established for the purpose of the regeneration, be appointed as the owner and operator of the affordable housing developed by Thamesway Developments Limited as part of the Regeneration of Sheerwater and be subject to security arrangements to ensure the rents remain affordable;
- v. acquisition of Share Capital in the Thamesway Housing Subsidiary be authorised up to £32.5m, being 25% of the cost of the affordable homes purchased from Thamesway Developments Limited;
- vi. a Thamesway Housing Revolving Loan Facility of up to £96.6m, being 75% of the cost of the affordable homes purchased from Thamesway Developments, for a period not to exceed eight years at an interest rate based on the relevant PWLB rate for the relevant drawing multiplied by 1.33334 to ensure that there is no cost to the Council in providing the Share Capital, be approved;
- vii. a Thamesway Housing Sheerwater Regeneration Finance Facility of £96.6m based on a 50 year Annuity based on a weighted interest rate calculated by reference to the PWLB 50 year Annuity Rate plus 0.5% margin multiplied by 1.33334 to ensure that there is no cost to the Council in providing the Share Capital, be approved;
- viii. the Monitoring Officer and the Chief Finance Officer, in consultation with the Leader of the Council, be authorised to approve the Loan Agreements and related Security Documents to protect the Council's interests and to ensure the regulation of Affordable Rents;
- ix. Officers be authorised to prepare the detail of the Compulsory Purchase Order and submit it to Council for approval in February 2018;
- x. Thamesway Housing Limited, financed by Thamesway Developments Limited be authorised to acquire private properties within the development area in accordance with the terms of the Sheerwater Community Charter;
- xi. a Sheerwater Regeneration Project Board be established of seven Members, four Conservatives, one Liberal Democrat one Labour and one Independent, to oversee the implementation of the regeneration project;
- xii. the Executive be authorised to approve the detailed planning submission and financial arrangements for each Phase, or sub phase, subject to the overall framework approved by the Council; and
- xiii. Right to Buy receipts are not retained from the 31st March 2017 onwards and that the Chief Finance Officer be authorised to determine whether or not to retain future receipts.

The Council has authority to determine the recommendations above.

Background Papers:

Sustainability Impact Assessment
Equalities Impact Assessment

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1.0 Introduction

- 1.1 The proposals for the Regeneration of Sheerwater secured Planning Consent on 27 July 2016.
- 1.2 The Council and New Vision Homes have mutually agreed that the original approach to the delivery of the Sheerwater Regeneration could not be progressed through New Vision Homes. This report outlines the options available to Council.
- 1.3 Taking into account the options available to the Council this report seeks Council approval to progress the Sheerwater Regeneration, subject to the outcome of consultations with Secure Tenants, and to include the project in the Investment Programme.
- 1.4 As part of the formal process, approved by Council, Secure Tenants are being consulted in accordance with provisions of Section 105 of the Housing Act 1985. The consultation concludes on 3 April 2017 and the results will be presented to Council on 6 April 2017.

2.0 Options in respect of Sheerwater Regeneration

Do Nothing

- 2.1 The Council could simply do nothing further as the initial proposal for delivery solely by the private sector through New Vision Homes could not proceed. The Council would face abortive costs for the Housing Revenue Account (Social Tenants) of some £4m in respect of its activities to date in pursuing the regeneration and need to directly finance from the General Fund (Council Tax) the removal of the Overhead Electricity cables and Pylons at some £2.5m rather than being able to recover the costs through the regeneration.
- 2.2 However that is not the main reason why Officers consider it would not be appropriate to abandon the proposals. If the Council does nothing it would fail to deliver a range of its policy objectives in respect of Sheerwater particularly Planning Policy CS.5 which seeks to address the whole of Sheerwater as a “ Priority Place” and the ambitions to improve health and well being within Sheerwater following consultation on the recreational needs of the area and its residents.
- 2.3 Perhaps equally importantly failure to proceed with the proposals would undermine the confidence of many of the Secure Tenants who see the proposed regeneration of Sheerwater as a positive step in addressing its current challenges, particularly when taken together with the wider area activities such as the Asset Based Community Development programme which is currently underway.
- 2.4 The “Do Nothing” option would make it extremely difficult for the Council to engage positively with those residents in need within Sheerwater as they would not see anything the Council says as “credible” for probably ten years or more.
- 2.5 Officers do not recommend the “Do Nothing” option.

Start Again

- 2.6 The Council could, as some argue it should, “go back to the drawing board”. Those that argue this approach want a smaller regeneration area, perhaps limited to the existing Dartmouth and Devonshire Avenue flats and the Athletics Track.

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- 2.7 Revisiting this would take several years and in the view of Officers will result in the same conclusion the current proposals reached, that to do so is not economically viable if the council is to secure its objectives as outlined in paragraph 2.2 above.
- 2.8 Equally with the “Do Nothing” option it is considered that the Council’s credibility will be undermined and further engagement with the majority of residents will be more difficult, albeit that it is acknowledged that some would be delighted.
- 2.9 Officers do not recommend the “Start Again” option.

Invite New Private Sector Proposals

- 2.10 The Council could go back to the market and invite submissions from private companies to implement the regeneration of Sheerwater in accordance with the approved scheme.
- 2.11 This process would take a significant amount of time, as demonstrated in the Private Finance Initiative proposal for Kingsmoor which took some five years of procurement and negotiation. Even then the process would only bring us to the same point we have now, a proposal.
- 2.12 Officers do not support this approach which, although tried and tested, would be unlikely to deliver a different result from the extensive commercial work done by New Vision Homes, a conclusion that the private sector could not deliver this level of regeneration and community benefit on its own.
- 2.13 Officers do not recommend the “Invite New Private Sector Proposals” option.

Seek a Development Partner

- 2.14 The Council could seek to reduce its financial exposure through seeking a private sector development partner to share the financial risk. This process is similar to the “Invite New Private Sector Proposals” and would require a full procurement exercise. Any Development Partner would require a share of development profit and thus put at risk the level of community benefit sought by the proposed regeneration.
- 2.15 Officers do not recommend the “Seek a Development Partner” option.

Implement through Thamesway Developments Limited

- 2.16 The Council has an established development company which it wholly owns and which it has appointed as a preferred developer.
- 2.17 The options of using its own company enable the development profit to be retained in the Borough and the suppression of profit levels to ensure that rents for the retained affordable homes are affordable. The option also enables Thamesway Developments Limited to enter into commercial arrangements with other companies and investors if it is advantageous for the delivery of the regeneration; so some of the advantages of private sector involvement that other options provide may still be secured at the discretion of Thamesway Developments Limited.
- 2.18 Officers recommend the “Implement through Thamesway Developments Limited” option as outlined in more detail in this report.

3.0 Sheerwater Regeneration Proposal

3.1 The proposals for the regeneration of Sheerwater are extensive and comprehensive with a major focus on improving community facilities, infrastructure, and quality of homes. The key features of the consent may be described as:-

- Hybrid Planning Consent issued on 27 July 2016;
- Detailed phase covering the provision of a new Leisure Centre, reconfiguration of school and new residential units on Sheerwater running track;
- Outline for the rest (means new detailed planning applications will need to be submitted for the phases);
- Parameter plan agreed by Local Planning Authority (LPA) – effectively sets a guidebook for the subsequent detailed applications; and
- 124 Planning Conditions attached to consent

3.2 The level of detail associated with the application and consent means that it is important to follow the phasing as approved to ensure the optimum benefit for flood alleviation. There will be some minor flexibility in phasing provided it does not compromise the sustainable drainage approach. Effectively the key issues when submitting detailed planning applications for later phases are to learn from the first phase of home sales and to modify the mix to homes for sale to optimise the viability of the regeneration.

3.3 To support the report the following Appendices, which set out information considered as part of the public consultation and the Planning Application, are attached

Appendix	
1	Sheerwater Regeneration Site Plan
2	Sheerwater Regeneration Phasing Plan
3	Sheerwater Community Value Plan

3.4 The regeneration makes extensive changes to Sheerwater:-

- 522 new open market dwellings;
- 462 new affordable dwellings (13 additional including 62 assisted living);
- New Leisure Centre;
- New public open space, pitches and formal play areas; and
- Demolition of 449 affordable dwellings and 127 existing 'private' dwellings.

3.5 The detailed planning consent is for parts of Phase 1 (A, B and C). The deliverables in the detailed consent are:-

- 92 residential units of which 13 affordable;
- Community Leisure Centre within BDB School for public use; and
- 4G all weather pitch for public use and use by Sheerwater Football Club within BDB School.

3.6 A copy of the Planning Officer presentation which led to the detailed consent is set out at Appendix 4 for information.

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- 3.7 Officers consider that to do anything other than pursue the implementation of the whole of the approved Hybrid scheme for the Sheerwater Regeneration would undermine the objectives of the regeneration and potentially leave the Council with additional costs. It was established in the early stage of the proposals that it was not affordable for the Council to solely seek to address the Dartmouth and Devonshire Avenue Flats and that doing so, even if affordable, would not address the wider objectives set by the Council as illustrated in the Community Value Plan set out at Appendix 3.
- 3.8 Whilst the Council is recommended to commit to full implementation it is acknowledged that each phase and/or sub phase beyond Phase 1 A, B & C, in respect of which there is a detailed Planning Consent, will require further consultation and submission of detailed plans for approval by the Planning Committee.
- 3.9 This report sets out how these steps can be managed by the Executive within a framework set by the Council for the implementation of the whole scheme should it be pursued.

4.0 Thamesway Developments Limited

- 4.1 Officers have worked on proposals with Thamesway Developments Limited (TDL) for it to implement the whole scheme.
- 4.2 It is considered that TDL has, and where necessary can acquire, all the necessary skills and resources to deliver the Sheerwater Regeneration scheme over the envisaged eight year period.
- 4.3 The TDL proposal is outlined at Appendix 5. This summarises the approach and the assumptions made by TDL and supported by Council Officers in respect of taking forward the regeneration.
- 4.4 The Chief Finance Officer has employed Ernst & Young to model the TDL proposals to enable her to be satisfied that the proposal is sound and that it is affordable for the Council to pursue. The model demonstrates that based on the assumptions set out in the report the regeneration through TDL can be prudently authorised by the Council.
- 4.5 To enable TDL to finance the scheme it will need access to Loan Finance from the Council through a Thamesway Development Revolving Loan Facility. The Thamesway Development Revolving Loan Facility will be for up to eight years and be subject to a 1% facility arrangement fee payable at the outset and be subject to PWLB short term interest rates, depending on the drawdown period taken by TDL but not to exceed 8 years, without an interest margin.
- 4.6 As the regeneration is implemented TDL will sell properties on the open market, thereby generating private finance, and sell the affordable homes to a subsidiary of Thamesway Housing Limited at cost.
- 4.7 The Thamesway Housing Limited subsidiary will operate as Thamesway Housing but the affordable homes developed by Thamesway Developments will be held in the subsidiary so that appropriate security arrangements may be applied to them and the rent controls, similar to those applied at Kingsmoor, can be secured.
- 4.8 It is proposed that a profit cap is applied to TDL so that it can make a profit of 1.5% of the total development costs of some £372m subject to a cash cap of £5m, therefore a target profit of £5.58m capped at £5m which, in accordance with arrangements approved by Council, will be retained in the Borough. To ensure the profit cap is secured it is proposed

that the arrangement with TDL will require it to pay a Grant to Thamesway Housing Limited to enable the rent levels for the new affordable homes to be kept within reasonable bounds. The current model demonstrates a profit for TDL of £2.791m, circa 0.75%.

5.0 Thamesway Housing Limited

- 5.1 Officers propose that Thamesway Housing Limited (THL), through a special purpose subsidiary, should acquire and retain the affordable homes constructed as part of the regeneration. This is subject to the outcome of consultation with tenants as outlined in a later section of this report.
- 5.2 During the development Thamesway Housing Limited, through a subsidiary it will establish for Sheerwater, will acquire the completed affordable homes. It is proposed that Thamesway Housing Limited be provided with an initial Thamesway Housing Revolving Loan Facility (THRLF) during the period over which it acquires properties from TDL; the Loan facility will be for 75% of the acquisition cost with the remainder being Share Capital. During the acquisition phase the Council will invest Share capital in the Thamesway Housing subsidiary equal to 25% of the cost of acquisition. Upon the acquisition of all the properties the THRLF is repaid and the THL subsidiary is refinanced by a Sheerwater Regeneration Finance Facility; being 75% of the acquisition cost within an aggregate sum of £96.6m.
- 5.3 The Thamesway Housing Revolving Loan Facility, representing 75% of the cost of the acquisition of the affordable homes developed by Thamesway Developments Limited, will be for up to eight years and subject to PWLB short term interest, depending on the drawdown period but not exceeding 8 years, without an interest margin or an arrangement fee, multiplied by 1.33334; thereby providing a weighted loan rate which fully meets the interest cost of providing the share capital in accordance with normal arrangements.
- 5.4 The Sheerwater Regeneration Finance Facility will be charged at the PWLB 50+ year Annuity Rate plus 0.5% multiplied by 1.33334; thereby providing a weighted loan rate which fully meets the interest cost of providing the share capital in accordance with normal arrangements which means that the Loan is repaid within 50 years of the completion of the new affordable homes.
- 5.5 These long term capital arrangements are in accordance with existing Council Policy for financing Thamesway Housing Limited and will require the investment of some £32.5m in Share Capital over the eight year development period.
- 5.6 Consideration has also been given to what level of rent should be assumed when calculating the financing of the regeneration. The original proposals had provided for some "social" equivalent rent for equivalent properties and some "affordable" accordingly it is proposed that all rents are at a level affordable to a wider range of low income households and equivalent to "social" rent for new properties.
- 5.7 The Council when bringing forward the Private Finance Initiative at Kingsmoor set a rent regime to ensure the properties started at an acceptable "social" level and would be maintained at that level. It is proposed that the same regime be applied to the Sheerwater Regeneration affordable properties to be retained by THL. To do so will require the grant outlined in paragraph 4.8 above.
- 5.8 Experience through the Council's nomination process has been that the properties at Kingsmoor are considered affordable and it should be noted that a number of tenants from Sheerwater have already decided to move to Kingsmoor.

- 5.9 The Thamesway proposal includes this approach to rents which is illustrated in its presentation set out at Appendix 5.

6.0 Voluntary Acquisition of Private Properties

- 6.1 Officers consider that uncertainty should be removed about the implementation of the Sheerwater Regeneration as soon as possible. It is proposed that the offer to acquire voluntarily from private owners should start from 1 June 2017, giving time after the Council meeting to establish and promote the arrangements, thereby enabling the owners of private properties within the regeneration area to sell their properties to Thamesway Housing Limited in accordance with the terms approved by the Council in its Community Charter.
- 6.2 This approach may give rise to acquisition costs of properties not yet required for development as they are in later phases. However Officers consider that acquiring properties early will reduce uncertainty for owners and for the Council. Accordingly it is proposed that the TDL Loan facility is flexibly managed to allow for the cost of each phase of the regeneration, less sale income, plus the early acquisition costs of properties.
- 6.3 The report seeks Council authority for Thamesway Housing Limited to acquire private properties within the development area, in accordance with the terms of the Sheerwater Community Charter, and to transfer the properties to Thamesway Developments Limited as and when required for redevelopment. From the time of acquisition to the time required for redevelopment the properties will be let on an assured shorthold basis at open market rent. Thamesway Developments Limited will be responsible for providing an intercompany loan to the Thamesway Housing subsidiary for the acquired properties from within its Thamesway Developments Revolving Loan Facility at a reduced charge that will ensure Thamesway Housing Limited has no net cost in managing the properties upon TDL's behalf.
- 6.4 Some owners and other interests may require the use of Compulsory Purchase Powers and these are outlined below. However Officers considered that an early appointment of legal advisors was essential and obtained authority from the Executive to ensure that a conditional contract was entered into prior to 31 March 2017 so that cost certainty can be obtained prior to submitting this report to the Council.

7.0 Providing the ability for Social tenants to move early.

- 7.1 The approach proposed above by Officers is to enable owner occupiers to move early; it may also be useful to allow, subject to availability of suitable properties, social tenants within the regeneration area to move early. To do so would require a Specific Lettings Policy to allow moves from Sheerwater even though families may be adequately housed.
- 7.2 The Executive, when consulted on this matter, was supportive of this approach and therefore the recommendation to Council is to authorise the Executive to approve a Special Lettings Policy for Sheerwater.

8.0 Compulsory Purchase Order

- 8.1 Site assembly for major regeneration schemes usually requires the use of compulsory purchase powers to be considered. This is to ensure that there is no unreasonable delay in assembling the site for the regeneration, and to avoid individual property owners holding the development to ransom by either seeking unreasonable payments for their property interest or refusing to treat with the body undertaking the regeneration. In addition, if ownership of any part of a regeneration area is unknown, procedures exist to

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enable that land to be acquired. Also, if development causes interference with rights of third parties, compensation may have to be paid for any interference with those rights, but the interference will not allow the third party to seek an injunction preventing the development from taking place.

- 8.2 It will be necessary for the Council to consider making a compulsory purchase order if it decides to proceed with the Sheerwater regeneration. The use of compulsory purchase powers would be determined by Council at its meeting on 8 February 2018. This will provide sufficient time for landowners to take advantage of the enhanced offers that the Council has said will apply, under the Community Charter, for voluntary land transactions prior to the making of a compulsory purchase order.
- 8.3 It is recommended that Officers be authorised to prepare the details of the proposed compulsory purchase order. This would be done in liaison with specialist external legal advisers who have experience of compulsory purchase.
- 8.4 At its meeting on 23 March 2017, the Executive authorised the Head of Democratic and Legal Services to appoint appropriate CPO legal specialists, provided no costs were incurred should the Council not decide to proceed with the Sheerwater Regeneration. This was to ensure that certainty on this aspect of the project was secured before Council considered the proposals for carrying out the Sheerwater Regeneration.
- 8.5 The Head of Democratic and Legal Services has appointed Davitt Jones Bould, solicitors, to assist the Council in preparing the CPO which will be necessary if the Council decides to proceed with the Sheerwater Regeneration. The defined scope of work includes the following:
- Advice in connection with the CPO;
 - Drafting the CPO documents, including the Order, Statement of Reasons and supporting documents;
 - Attendance at meetings;
 - Managing the land referencing process and advice in connection with land titles arising from that process;
 - Providing a workshop to the Council on CPO procedures; and
 - Mentoring the Council's Legal Services staff so that they acquire expertise in CPOs.
- 8.6 The estimated cost of the work to be undertaken by Davitt Jones Bould (and the land referencing agents to be appointed by them on behalf of the Council) is £280,000 plus disbursements (£33,600) plus VAT; a total estimated cost of £313,600 plus VAT.
- 8.7 The hourly rates chargeable by Davitt Jones Bould are calculated by reference to Legal Services Framework Agreements (including the Surrey Legal Services Framework Agreement).
- 8.8 On 24 March 2017, the Communities Secretary Sajid Javid announced the distribution of funding to a number of local authorities and housing associations to speed up the building of thousands of new homes. In particular, more than 100 housing estates across the country are set to benefit from a significant investment to kick-start their regeneration. Sajid Javid said:

“For too long a number of housing estates across the country have been areas characterised by low-quality homes and high social deprivation. The government is determined to have a housing market that works for everyone. That’s why we’re

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turbocharging the regeneration of these rundown estates, so that they can thrive as communities.”

8.9 The Council has been awarded a grant of £285,000 from the £32m Estate Regeneration Fund announced by Mr Javid. This is to be used for legal costs incurred by the Council in promoting the CPO should the Council decide to proceed with the Sheerwater Regeneration.

8.10 It is useful to briefly set out the procedure that could be followed if the Council does agree to make a compulsory purchase order. This is as follows:

(i) Preparing for a CPO

The proposed CPO scheme and land required for that scheme are determined. All parties with a legal interest in, or having a right to occupy, the land affected by the proposed CPO scheme are identified. The CPO and supporting documents are drafted.

(ii) CPO “Made”

The Council formally resolves to use its CPO powers and “makes” the CPO.

(iii) CPO Published and Served

The Council must publish a notice of the making of the CPO for two successive weeks in one or more local newspapers, identifying a place where the CPO may be inspected and providing for any objections to be submitted within a period of not less than 21 days. A notice must also be placed on the site. Notices, stating the effect of the CPO, are also served on all persons with an interest in the CPO land.

(iv) Objections

Any person who has been served with notice of the CPO can object to it by writing to the Council, stating the grounds of objection, within the specified time period.

If there are objections which have not been withdrawn, the Secretary of State may order a public inquiry to be held to consider the case. If all parties agree, the objections may be considered through written representations.

After considering the Inspector’s report, the Secretary of State will confirm, modify or reject the CPO.

Subject to there being no objections, the Secretary of State may allow the Council to confirm the CPO itself.

(v) Taking Possession of the CPO Land

If the CPO is confirmed, the Council will take title and possession of the CPO land. This can be done through a variety of methods.

(vi) Compensation

If the Council has implemented a confirmed CPO, all parties with an interest in the land, or rights in respect of the land, will be entitled to submit a claim to the Council for compensation. The principal purpose of compensation is to compensate, at

market value, those with interests in the land being acquired. However, additional heads of compensation, such as disturbance payments, may also be claimed.

In the absence of agreement being reached on the amount of compensation payable, either party may refer the disputed compensation to the Upper Tribunal (Lands Chamber) for determination.

8.11 This report recommends to Council authority for Officers to progress the CPO.

9.0 Consultation with Secure Tenants

9.1 Following the decision of Council on 9 February 2017, Secure Tenants are being consulted on the Council's proposals to invite Thamesway Developments Limited to submit proposals for undertaking the Sheerwater regeneration and for the Affordable Homes to be operated by Thamesway Housing. This is in accordance with the Council's statutory obligation under Section 105 of the Housing Act 1985.

9.2 The closing date for Secure Tenants to submit their responses to this consultation is 3 April 2017. The consultation responses will be reported to Council at its meeting on 6 April 2017 in order to be taken into account when considering the recommendations set out in this report.

9.3 Letters were sent to 392 Secure Tenants and 49 responses have been received by 30 March 2017. Early analysis suggests that some 82% indicate support for the use of Thamesway.

10.0 Security Arrangements

10.1 It will be necessary to enter into a range of agreements and security documentation to protect the Council's investment in this proposal. These will need to include Loan Agreements and Security documentation over assets and monies of both Thamesway Developments and Thamesway Housing. As assets and monies are interchangeable between the companies and the ultimate beneficiary of the development is Thamesway Housing it is vital that security is joint and several; this will require the approval of the Thamesway Group.

10.2 The Council is therefore recommended to authorise the Monitoring Officer and Chief Finance Officer, in consultation with the Leader of the Council, to approve the Loan Agreements and related Security Documents protect the Council's interests and to ensure the regulation of Affordable Rents.

11.0 Project Governance

11.1 The Council has well established Governance arrangements for its Thamesway Group of companies and normal control through its various Boards.

11.2 However due to the significance of the project it is proposed that the Governance of the detailed implementation by Thamesway Developments should be through a Project Board which should include Council appointed Member Directors to the relevant Thamesway Companies and other Members on a similar basis to the Panel established for Victoria Square.

11.3 Accordingly it is proposed that a Project Board be established with a total of seven Members representing all Groups on the Council; four Conservative, one Liberal Democrat, one Labour and one Independent Member.

11.4 In addition to these formal Governance arrangements the Sheerwater Regeneration Oversight Panel will continue to oversee the wider Sheerwater community improvements and receive reports from time to time from the Project Board.

12.0 Implications

Financial

12.1 Thamesway Developments and the Council have worked through the proposals for Sheerwater Regeneration and prepared a high level financial model with the assistance of Ernst & Young. The work with Ernst & Young will continue, if the Council approves the regeneration, to refine the model so that it can model each phase and can be updated as tender prices and revisions are received and approved.

12.2 The high level model takes account of the development proposal from Thamesway Developments Limited (TDL) and the financing approach proposed by Officers to the Executive, adjusted in accordance with the views of the Executive and outlined in this report.

12.3 A model “dashboard” has been produced and is attached at Appendix 6 which demonstrates the deliverability and affordability of the project. The total development costs are estimated at £372m (£372.131m) but because the project is phased and there are asset sales during the development, including to Thamesway Housing, the Loan facility required by TDL is £76m (£75.931m). The sales to Thamesway Housing are estimated at £135m (£135.145m) and, as part of the arrangement to ensure affordable rents and suppress TDL profit TDL will make a grant to THL of £14m (£14.316m).

12.4 Additional information summarising the combined cash flows and the separate cash flows for TDL and THL are set out at Appendix 7.

12.5 The finance required by THL to acquire the properties, taking account of its interest and operating costs during the development phase is some £129m comprising some £32.5m in Share Capital and £96.6m (£97m facility) through a 50 year+ annuity Loan.

12.6 The approach to financing THL and the interest rate approach set out in the report is consistent with the approved approach to financing housing provision; however, as set out in the updated Medium Term Financial Strategy, the Loan Margin is reduced to 0.5%.

12.7 The approach to financing TDL during the development is similar to the approach approved by Council for the development of Victoria Square where a 1% arrangement fee is charged but no Loan Margin is applied. The arrangement fee of 1%, payable at the outset, will generate some £760,000 which will be set aside in reserves to assist in defraying any Council direct costs related to supporting the regeneration of Sheerwater.

12.8 As outlined in the report the financial model will be updated and incorporate each Phase to enable it to be authorised by the Executive. This will ensure that the total finance requirement authorised by the Council, proposed by this report to be some £129m of long term borrowing to enable the £372m of development, is closely monitored and that any variance that may be required is submitted to Council for approval.

12.9 It will not be necessary to amend the Council’s Borrowing Limited for 2017/18 but over the eight year development period the total Borrowing will be taken into account when advising the Council on the determination of future Borrowing Limits.

Sheerwater Regeneration Scheme Proposals

- 12.10 These arrangements are considered financially sound and the arrangements with the Thamesway Group of companies will be secured through the Loan Agreements and related Security documents.
- 12.11 The arrangements set out in this report enable the regeneration of Sheerwater and the provision of significant community benefits and no net cost to Council Tax taxpayers and will result in an annual benefit from the Loan Margin of circa £400,000 per annum upon the completion of the development.

Affordability for the HRA

- 12.12 The regeneration involves the demolition of 449 affordable dwellings within the Council's Housing Revenue Account (HRA) which are replaced by 462 affordable dwellings. This demolition is estimated to reduce HRA rental income by £2.03m.
- 12.13 The loss in rental income will be offset by significant direct savings on Repairs and Void works costs, the New Vision Homes management costs charged to WBC, and the Major Repairs Contribution for capital works. There will also be a reduction in interest costs as the debt associated with the demolished properties will be recovered from the scheme. It is therefore estimated the net loss will be approximately £750,000.
- 12.14 In 2017/18 the HRA is budgeted to make a surplus of £176,000 and also makes a Revenue Contribution to Capital Outlay of £1.3m. There is also flexibility within the Housing Investment Programme to incorporate expenditure currently budgeted for within the HRA Operating Account.
- 12.15 It is considered that the HRA has sufficient scope to withstand the reduction in properties and net income. However, there remain future financial risks facing the HRA through further rent reductions and the High Value Vacant Property Disposal Payment proposed under the Housing and Planning Act. The impact of these, and any other government policies, will continue to be reviewed as part of the annual budget cycle.

Retained One for One Receipts

- 12.16 Local Authorities can retain an element of Right to Buy receipts locally to be used on one for one replacement housing. These receipts can be used to fund up to 30% of the cost of the replacement housing and must be used within 3 years or passed to the Government.
- 12.17 When the Right to Buy Scheme was extended, and one for one receipts introduced, it was envisaged that the proceeds from a Right to Buy Sale would fund a replacement dwelling while still providing both the Treasury and the Local Authority the level of capital receipts expected under the former arrangements. This would be possible due to the increased volume in Right to Buy Sales and by borrowing against the future income received from the replacement dwelling.
- 12.18 A borrowing cap was introduced under self-financing, restricting the Council's level of HRA borrowing. Woking currently only has £5.7m within this cap which enables a total spend of £8.1m on one for one replacement housing if the Woking 70% is to be funded through borrowing.
- 12.19 The regeneration project would create additional headroom of £13m allowing a further £18.6m to be spent on affordable housing with 30% of this funded from retained receipts.

Sheerwater Regeneration Scheme Proposals

- 12.20 To date £8m in one for one replacement receipts has been received. WBC therefore has to spend £26.7m on new HRA properties in order to avoid passing these receipts back to central government.
- 12.21 £4.4m has been spent on the HRA acquiring properties during 2015/16 and 2016/17, leaving £22.3m to be applied. Each quarter is the deadline for receipts retained 3 years ago to be used. In the quarter to 31 March 2017, with a decision to proceed with the Sheerwater Regeneration imminent, it has not been possible to identify suitable properties for acquisition to use the receipts reaching deadline. In total £467,000 plus interest of £63k, will have to be returned to the Government in April 2017.
- 12.22 The existing borrowing headroom, and the headroom created by the regeneration project, provides enough borrowing to be able to use the current level of retained receipts. However, the HRA would not have any further capacity to borrow beyond this level and therefore would not be able to spend any future one for one replacement receipts unless the Government authorised an increase in the Council's HRA debt ceiling.
- 12.23 It is therefore recommended that receipts are not retained from the 31st March 2017 onwards. However the agreement with the DCLG allows a Local Authority to choose to retain or return the receipts each quarter so this position can be reassessed going forward and it is therefore suggested that the Chief Finance Officer be authorised to determine whether or not to retain future receipts.

Legal

12.24 The Monitoring Officer has commented as follows:

"I have reviewed the report being presented to Council on 6th April 2017 and the documents referred to in that report. I am satisfied that:

- (i) It is lawful for the Council to proceed as recommended;
- (ii) It is reasonable for the Council to proceed as recommended, and
- (iii) The Council's interests in this matter can be adequately protected by entering into the security documents referred to."

Human Resource/Training and Development

12.25 The report will give rise to human resource issues for the Council but it is considered that these can be accommodated within existing resources.

12.26 There are additional human resources issues for Thamesway and the resources to finance these are included in the proposal.

Community Safety

12.27 The community safety issues that will arise during the project will be managed by Thamesway.

Risk Management

12.28 The risk management implications that will arise during the implementation of the project will be managed by Thamesway.

12.29 The risk of not proceeding with the project has been outlined in the options section of this report.

Sustainability

12.30 The regeneration proposals will greatly enhance the sustainability of Sheerwater.

Equalities

12.31 The new properties proposed for Sheerwater and the new green spaces are more accessible and better suited to the needs of the wider community than the current layout of and properties within Sheerwater.

13.0 Consultations

13.1 There have been extensive consultations undertaken in bringing forward these proposals although it is acknowledged, as with all consultations and in all democratic situations, not all people agree.

REPORT ENDS

WBC17-016

Equality Impact Assessment

The purpose of this assessment is to improve the work of the Council by making sure that it does not discriminate against any individual or group and that, where possible, it promotes equality. The Council has a legal duty to comply with equalities legislation and this template enables you to consider the impact (positive or negative) a strategy, policy, project or service may have upon the protected groups.

		Positive impact?			Negative impact?	No specific impact	What will the impact be? If the impact is negative how can it be mitigated? (action) THIS SECTION NEEDS TO BE COMPLETED AS EVIDENCE OF WHAT THE POSITIVE IMPACT IS OR WHAT ACTIONS ARE BEING TAKEN TO MITIGATE ANY NEGATIVE IMPACTS
		Eliminate discrimination	Advance equality	Good relations			
Gender	Men					X	
	Women					X	
Gender Reassignment							
Race	White					X	
	Mixed/Multiple ethnic groups					X	
	Asian/Asian British					X	
	Black/African/Caribbean/Black British					X	
	Gypsies / travellers					X	
	Other ethnic group					X	

		Positive impact?			Negative impact?	No specific impact	What will the impact be? If the impact is negative how can it be mitigated? (action) THIS SECTION NEEDS TO BE COMPLETED AS EVIDENCE OF WHAT THE POSITIVE IMPACT IS OR WHAT ACTIONS ARE BEING TAKEN TO MITIGATE ANY NEGATIVE IMPACTS
		Eliminate discrimination	Advance equality	Good relations			
Disability	Physical		X				Regeneration of area with improved properties and facilities
	Sensory		X				“”
	Learning Difficulties		X				“”
	Mental Health		X				“”
Sexual Orientation	Lesbian, gay men, bisexual					X	
Age	Older people (50+)		X				New sheltered housing provision.
	Younger people (16 - 25)		X				New recreational facilities
Religion or Belief	Faith Groups					X	
Pregnancy & maternity						X	
Marriage & Civil Partnership						X	
Socio-economic Background			X				Improved property environment with enhanced facilities

The purpose of the Equality Impact Assessment is to improve the work of the Council by making sure it does not discriminate against any individual or group and that, where possible, it promotes equality. The assessment is quick and straightforward to undertake but it is an important step to make sure that individuals and teams think carefully about the likely impact of their work on people in Woking and take action to improve strategies, policies, services and projects, where appropriate. Further details and guidance on completing the form are [available](#).

Sustainability Impact Assessment

Officers preparing a committee report are required to complete a Sustainability Impact Assessment. Sustainability is one of the Council's 'cross-cutting themes' and the Council has made a corporate commitment to address the social, economic and environmental effects of activities across Business Units. The purpose of this Impact Assessment is to record any positive or negative impacts this decision, project or programme is likely to have on each of the Council's Sustainability Themes. For assistance with completing the Impact Assessment, please refer to the instructions below. Further details and guidance on completing the form are [available](#).

Theme (Potential impacts of the project)	Positive Impact	Negative Impact	No specific impact	What will the impact be? If the impact is negative, how can it be mitigated? (action)
Use of energy, water, minerals and materials	X			The regeneration proposal incorporates
Waste generation / sustainable waste management			X	A wide range of substantial improvements
Pollution to air, land and water	X			in sustainability as set out in the Planning
Factors that contribute to Climate Change	X			Application. The relevant areas have been
Protection of and access to the natural environment	X			Highlighted in this overview.
Travel choices that do not rely on the car			X	
A strong, diverse and sustainable local economy	X			
Meet local needs locally	X			
Opportunities for education and information			X	
Provision of appropriate and sustainable housing	X			
Personal safety and reduced fear of crime	X			
Equality in health and good health	X			
Access to cultural and leisure facilities	X			
Social inclusion / engage and consult communities	X			
Equal opportunities for the whole community	X			
Contribute to Woking's pride of place	X			