

TITLE	Gorse Ride Regeneration Project Changes to Delivery Model
FOR CONSIDERATION BY	The Executive on Thursday, 17 February 2022
WARD	Finchampstead South;
LEAD OFFICER	Deputy Chief Executive - Graham Ebers, Director, Place and Growth - Steve Moore
LEAD MEMBER	Deputy Leader of the Council - John Kaiser

PURPOSE OF REPORT (INC STRATEGIC OUTCOMES)

To seek agreement for the financing of the regeneration of social housing at Gorse Ride, to provide more affordable homes and support a strong community.

RECOMMENDATION

That the Executive recommends that Council

- 1) approve that the development of homes within the Gorse Ride regeneration will be transferred to the Housing Revenue Account. (With market sale element in the general fund)
- 2) approve the expenditure budget up to the total cost of the scheme of £105,601,534 funded through a combination of HRA borrowing, capital receipts, developer contributions and right to buy receipts. (Further information provided in the report);
- 3) give delegated authority to the Director of Resources and Assets, in consultation with the Executive Member for Housing and Finance, to approve the use of additional Affordable Housing s106 commuted sums as a contingency against cost and funding variations such as any future design changes and/or fluctuations in costs and values of up to 15% of the cost of the scheme in the event of any other financial impacts;
- 4) agree that any appropriation of land between the HRA and general fund required to deliver the scheme will be delegated to the Director of Resources and Assets, in consultation with the Executive Member for Housing and Finance.

EXECUTIVE SUMMARY

The Gorse Ride regeneration project is a flagship scheme in the Council's response to the housing crisis, providing more and better affordable housing. The project recognises the value a thriving community can make to a successful housing regeneration project, by working collaboratively with the residents to ensure that the sense of community is preserved through a proactive engagement process.

The provision of well-planned and delivered affordable housing has never been more important. Data on a national and local level shows that homelessness is on the increase, with an escalating demand for temporary accommodation not only impacting the Council's future temporary accommodation budgets but having a major effect on those residents whose lives are disrupted by not having a stable and secure home. Meanwhile increasing house prices in Wokingham Borough continue to make home ownership unaffordable for many. The project is generally well supported by residents who along with the Tenant and Landlord Improvement Panel are updated on progress on a regular basis.

In May 2018, the Council's Executive approved the Gorse Ride regeneration project to replace the existing 178 poor quality, primarily Council owned, socially rented homes, with 243 new high quality, well designed and energy efficient homes, set in landscaped green space. If the recommendations within this report are adopted a total 249 new homes will be provided, of which 136 will be social rented homes, 49 shared ownership and 64 private sale homes. This equates to 51 more affordable housing properties than currently provided on the development.

Although, good progress has been made since the report went to council in 2018, the scheme has encountered a number of changes since its initiation which have impacted upon the project funding model. This includes reduction in anticipated Homes England grant funding, alterations to the design and the recent upward inflation pressures on construction costs. This report recommends a number of reasonable adjustments that can be implemented to help manage costs and reduce risks whilst ensuring that good quality homes are delivered as planned.

It is recommended that the regenerated properties in Gorse Ride are transferred to the HRA, rather than to the Council's housing company, Loddon Homes, as proposed in the 2018 report, which will allow access to the HRA borrowing capacity without the need for additional affordable housing contributions. Utilising the HRA also allows the use of Right to Buy receipts as an additional funding stream. Note that the private sector properties are excluded and will be transferred to the general fund to avoid the revenue costs associated with market sale properties within the HRA. Council is asked to agree that any appropriation of land between the HRA and general fund required to deliver the scheme will be delegated to the Director of Resources and Assets, in consultation with the Executive Member for Housing and Finance.

Council is asked to approve a total of £37,546,183 of HRA borrowing (note that affordable housing s106 of £28,015,683 has already been approved to fund the scheme). The interest and repayment of this borrowing will be through the rental income generated in the HRA. Due to the scale and complexity of a project of this size and the challenging market conditions in relation to material prices and supplies, it is further recommended that delegated authority is given to the Director of Assets and Resources, to approve the use of additional affordable housing s106 commuted sums as mitigation against any fluctuations in costs of up to 15% of the total cost of the scheme. The original report made no provision for contingency on this project which is unusual for a project of this size

BACKGROUND

The Gorse Ride is a community regeneration scheme that will help meet local affordable housing need and maintain a strong community in Gorse Ride. It supports the Wokingham Borough Corporate Delivery Plan (2020 – 2024) priority ‘Right Homes, Right Places’. The scheme also supports the Council’s Housing Strategy for (2020 – 2024) outcome to deliver regeneration programmes of older, poor quality housing stock. The scheme makes a major contribution to the four key priorities within the Housing Strategy to:

- Address and understand our housing needs
- Support our vulnerable residents through a range of housing options
- Improve the quality, sustainability and management of the Borough’s homes
- Enrich people’s lives

The project team is working collaboratively with the Gorse Ride residents to keep the community together to ensure that the project adds to the quality of life and community cohesion of the residents living there. By engaging with the local community throughout the planning and design process it is expected that the new homes will better meet the needs of residents now and in the future. The project is generally well supported by residents and the Tenant and Landlord Improvement Panel, made up of social housing tenants and members, are regularly updated on progress.

Gorse Ride is a residential area in Finchampstead comprising a total of 178 properties, of which 133 are Council owned, socially rented homes and 45 are privately owned properties. The homes were built in the 1970s, with the purpose of providing accommodation for a limited period of time, which was reflected in the build quality. Over the years there have been a number of issues relating to the non-traditional construction, including poor thermal insulation, some structural defects and above and below ground drainage issues. These have all led to poor living conditions and high maintenance liabilities compared with other homes in the Council’s ownership.

The proposed regeneration will transform Gorse Ride through the provision of new, high quality, social rented and shared ownership homes, private market replacement homes and well-designed open spaces.

Previous Executive reports giving approval for the regeneration of Gorse Ride

In March 2017, the Executive agreed the intent to regenerate the Gorse Ride estate and in May 2018 the Executive approved a number of recommendations to progress with the redevelopment of the scheme. This included:

- Approval for the funding model based on a construction cost estimate of £69,500,000 and site assembly cost estimate of £18,700,000, with a total scheme cost of £88,200,000. The report also confirming the allocation of £28,015,683 of affordable housing s106 receipts as well as £1,300,000 from the Housing Revenue Account (HRA) for statutory compensation payments to tenants. Loddon Homes, was proposed as the appointed landlord, were to meet the remaining funding through borrowing, Homes England grants, sale of a proportion of properties on the open market and rental income.

- Approval of taking a community regeneration approach to the redevelopment with the intention of developing the site whilst keeping the well-established community together through tenant decanting and acquisition of privately owned properties.
- Recommendations for the indicative number of new homes and the proposed tenure mix, proposing a total of totalled 243 homes. Comprising of 136 social rented homes, 12 affordable rented homes, 19 shared ownership homes and 76 homes for private sale.
- The selection of Wokingham Housing Limited (WHL) as the development partner and Loddon Homes Limited as the end landlord for the new homes.

To allow better co-ordination of the decant process which enables residents to move to new homes within the development and keep the community together the construction has been divided into four phases. Phase 1, Phase 2a, Phase 2b, and Phase 2c

Phase 1 - is adjacent to Phase 2 and is now complete and has been transferred to Loddon Homes. Phase 1 properties are being used to decant residents from Phase 2a as part of site assembly/decant process to allow development in that Phase to proceed over the next two years. Phase 1 of Gorse Ride is outside the scope of this report. This report is only concerned with the financing for Phase 2 including Phases 2a, 2b and 2c.

Progress since the Executive report in May 2018

Significant progress has been made with progressing the delivery of the Gorse Ride regeneration project since May 2018. This includes:

- The completion of Phase 1 of the Gorse Ride redevelopment. (Note this part of the development will remain within Loddon Homes as the landlord)
- Successful on-going engagement with the Gorse Ride community including the establishment of a Steering Group. The community has been fully involved with the regeneration process being consulted on overall design and process with regular communications distributed. Most of the residents in the Phase 2a of development have now been successfully moved into new homes
- Granting of full planning consent in February 2021
- In July 2021, the demolition contract for the first phase was awarded. The appointment of construction company for preconstruction services is in progress.

Events that have impacted on the delivery and finances Gorse Ride regeneration project since the May 2018 Executive report

Since May 2018 a number of significant events have taken place that have impacted on the financial modelling and project times lines for the development.

- The Council restructured its housing companies in 2019 by bringing Wokingham Housing Limited and its development services inhouse. This process added some delay to the delivery of the project.
- The construction costs quoted in May 2018 were an estimate based on an outline early-stage design. Since then, significant detailed design and planning work has been undertaken with additional design costs for the project being identified for items such as the mitigation for flooding issues and upgrading environmental sustainability measures.

- Inflation of material costs and shortage of labour and skills triggered by the Covid pandemic have seen escalating construction costs (often in excess of twenty percent) which have increased the anticipated costs for the project.
- Changes to the Homes England funding criteria in December 2020 significantly reduced the amount of grant funding available for social housing on regeneration projects. This has resulted in an estimated decrease of £10 million for the project.

Gorse Ride is a development project of considerable size and as with all projects of this nature it is expected that there will be an element of review at different stages of the project. With planning permission agreed and the decant process coming to an end for the first stage of development, officers have undertaken a review of the project in its entirety to mitigate the events outlined above and to guard against future risks.

BUSINESS CASE

In reviewing the Gorse Ride project, the Council has identified a number of reasonable adjustments to mitigate some of the impacts identified above and ensure that costs are kept to a minimum. The main issues faced by the Gorse Ride project are escalating costs resulting from changes to the original design, reduced access to grant funding and inflating construction costs.

Recommendation 1

The assessment of project costs has identified that the Loddon Homes financial option cannot support the project without significant additional funding. It is therefore recommended to Council that Gorse Ride remains within the HRA (apart from the market sale properties which will transfer into the general fund), rather than moving to Loddon Homes, as indicated in the 2018 Executive report.

Recommendation 2

This report seeks Council approval for the expenditure budget to the total cost of the scheme of £105,601,534, including HRA borrowing of up to £37,546,183.

Table below sets out the indicative costs for the Gorse Ride project

Description of Cost	Value
Site Assembly/Decant process <i>Includes property acquisition, equity loans, home loss payments, relocation costs, CPO fees</i>	£17,500,000
Construction costs for the whole site	£75,157,940
Development Fees, On Costs and Interest	£12,943,594
Total	£105,601,534

The table below sets out the proposed funding structure for the project with the HRA as landlord.

Funding/Income Stream	Value
S106 Commuted Sums (approved in May 2018 Executive report)	£28,015,683
HRA borrowing	£37,546,183
Capital receipts from sales of new properties (market & shared ownership)	£35,174,668
HRA (Home Loss Payments)	£1,300,000
RTB Receipts	£3,565,000
Total	£105,601,534

Viability case for HRA borrowing

Annual interest rate for HRA borrowing on completion of £37,546,183 at 2.0% is £760,000 per annum (Based on current Public Works Loan Board fifty-year rate estimated in January 2022)

The estimated income from rent is anticipated to be between £1,060,800 – £1,300,000 per annum

This provides an estimated surplus of between £300,800 per annum and £540,000 per annum available for allocation within the HRA which will include the ability to repay borrowing

Recommendation 3

Although, the recommendation of locating the project within the HRA does not require the investment of further sums to make it viable, there is a risk of further unforeseen costs to the project, such as continued increase of construction costs. It is therefore recommended that the Council approves delegated authority to the Director of Assets and Resources, in consultation with the Lead Member for Housing and Finance to approve future adjustments to the funding model, including the use of additional s106 receipts for the provision of affordable housing, in response to any future design changes and fluctuations in costs and values up to 15% of the total cost of the project if required.

To further support the project, the Council will continue to identify other funding sources, such as funding streams from Central Government regeneration initiatives and Homes England.

Recommendation 4

To meet the statutory requirements in the Local Government and Housing Act 1989, which sets out what costs can be charged to the HRA, Council are asked to agree that any appropriation of land between the HRA and general fund, required to deliver the scheme, will be delegated to the Director of Resources and Assets, in consultation with the Executive Member for Housing and Finance. This will ensure that the HRA is not charged with any revenue costs associated with market sales. The development costs and sales receipts for the market sale properties will be accounted for within the general fund.

Expected Outcomes and Project Times Scales

The recommendations will ensure that the Gorse Ride redevelopment project can proceed at pace in the knowledge that the financing is in place. The project will provide a total of 249 new homes of which 136 will be social rented homes, 49 shared ownership homes and 64 private sale homes equating to 51 additional affordable homes in the Borough. The current poor-quality housing will be replaced with new, well designed, energy efficient, quality homes. The community, who in the main have elected to return to the development, have been involved in the design process and kept fully updated on progress.

Once the Executive has agreed the recommendations the next steps will be to

- Finalise construction costs and get any design amendments approved by the Planning Authority – approximately four months
- Agree the Pre-Construction Services Agreement (PCSA) with the appointed construction company for the later phases of the site – approximately six months
- Apply for new CPO which will take up to twelve months
- Start on site for construction between summer 2022.

It is likely that further reports will be submitted for member approval for decisions on the CPO and development issues at various points in the lifetime of the project

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1) 2021/22	£2,500,000	Yes, subject to the approval of Executive of recommendations in this report	See menu of funding steams in main report
Next Financial Year (Year 2)	£29,300,000	Yes, subject to the approval of Executive of recommendations in this report	See menu of funding steams in main report
Following Financial Year (Year 3)	£32,500.000	Yes, subject to the approval of Executive of recommendations in this report	See menu of funding steams in main report

Other Financial Information

See the main report for current scheme costs and funding model.

Stakeholder Considerations and Consultation

On-going engagement is being undertaken with the local community through the Community Regeneration Senior Specialist with the Community Steering Group

<p>Public Sector Equality Duty</p> <p>An Equalities Impact Assessment (EQIA) of the Scheme was undertaken in April 2018. The Council has considered each protected characteristic to identify whether the regeneration of the site or delivery of the scheme could have a detrimental impact of such protected characteristics. The EQIA identified a number of impacts on the protected characteristic and actions to be undertaken to address any negative impacts identified. The EQIA is a live document and was updated in January 2021. It will continue to be updated as the scheme progresses and is implemented to ensure that identified actions are undertaken to mitigate any impacts.</p>

<p>Climate Emergency – <i>This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030</i></p> <p>The regeneration of Gorse Ride is anticipated to reduce energy demand by 17% through energy efficient fabric and building services. The dwellings have high levels of airtightness and thermal mass, and reductions in thermal bridging potential. In response to climate change and rising temperatures, the properties have been designed to have passive solar shading through the balcony design. Mechanical Ventilation with Heat Recovery has also been incorporated into the design to ensure that the properties are well ventilated without losing heat and eliminating the condensation within a building.</p> <p>Approximately 22.6% of the development’s total energy demand will be supplied via a decentralised heating network serving the apartment blocks. Total energy consumption is anticipated to be reduced by 17% through energy efficient design, with 8.3% of the development’s anticipated in-use demand being provided by low carbon technologies.</p> <p>In response to Wokingham’s Climate Emergency Action Plan individual properties have electricity only and are heated by internal Air Source Heat Pump, integrated into a hot water cylinder. EV points will be distributed around the development to encourage the use of electric cars.</p>

<p>List of Background Papers</p> <p>None</p>

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