



Title: New Build and Development Update

Report of: TGHC Director of Customers and Communities

Purpose of Report

1. The purpose of this report is to provide an update on: -
 - The current phases of new build activity for Keelman Homes.
 - The Empty Homes Purchase and Repair programme.
 - Further opportunities to explore additional grant under the 2015-18 Affordable Homes Programme under continuous market engagement.

Background

2. Further to previous reports that have been presented to this Board outlining progress against New Build Phases 1 and 2, this report provides a further update on progress since the meeting on 2 October 2014.
3. All proposed sites and units referred to in this report have been subject to a desktop appraisal which included input from working group members, comprising of officers from TGHC and Gateshead Council, to ensure the sites meet the strategic needs of the Council in terms of housing provision, planning requirements and housing need.

Update – Phase 1

4. There are 15 units currently being developed in this phase of works, utilising developers grant and working in partnership with Esh Construction Services. The sites and proposed property mix are included at Appendix 1.
5. The developments at both Felling Library and Strathmore Road are currently nearing completion and the properties are now being advertised at affordable rents.
6. Works are in progress at the Kirkwood Gardens site, with construction activity commencing in August and a target completion of the six units on the site estimated to be in January 2015.
7. All properties in this phase of works are expected to be complete within the current financial year to comply with HCA grant conditions.

Update - Phase 2

8. Phase 2 of the new build programme proposed to provide 29 units across two sites in the West of the borough at the former Lonnen sheltered scheme site and a cleared garage site on the Runhead Estate.
9. The sites and proposed property mix for these units are shown at Appendix 2. As with the first phase of properties, these units are being financed through a combination of capital loan facility and HCA developers grant. In this phase the construction partner is Galiford Try and they are introducing grant into the schemes.

Lonnen site

10. Following planning determination being issued on the Lonnen Site, the works commenced at the beginning of June with a draft programme targeting completion in early 2015. The site will include a mix of social rents (14 units) and private sales (6 units).
11. In relation to the private sales properties, the estimated valuations used in the financial model were agreed with the developer and based on local knowledge, recent sales and valuations of similar type properties and were conservative estimates of what was being achieved at the time the scheme was first proposed.
12. The new build properties are now being marketed via Your Move with initial asking prices of £150,000 for the 3 bed houses and £170,000 for the 4 beds. These prices have increased from what was originally factored into financial projections to reflect improvements in the market and interest will continue to be monitored over the coming months.
13. Further to the previous board meeting an independent valuation report has been commissioned to verify asking prices for sales and typical market rents. The sales valuations are consistent with current asking prices and the market rent assessments (when reduced to 80% to give an affordable rent) are almost identical to the estimates that had been used on the financial models.

Runhead Site

14. Further to the previous board report advising of the need to defer delivery of the site due to service diversions, no further work has been undertaken since the October meeting. As the site will not be progressed using current HCA developers grant, the intention would be to re-commence the scheme using HCA grant as part of the 2015-18 funded programme.
15. We are currently discussing this scheme with both Galiford Try and the HCA to establish what grant can be achieved through what the HCA have termed continuous market engagement. As the initial preparatory work and planning have been achieved, the indications are that an application for this scheme would be viewed positively as a confirmed, ready to commence development.
16. The next steps are to firm up revised costs for the scheme, taking into account the service diversions and submit an application to the HCA for grant funding.

17. Discussions are ongoing with Galiford Try as to which party would apply for the grant as although Galiford have committed to hold contract prices, they have not yet secured further grant for this scheme. Should Keelman Homes apply for grant in its own right, then the scheme could potentially be delivered as part of a package with the preferred development partner as part of the 2015-18 programme.

Empty Homes Purchase and Repair

18. As per the previous board report, the five units that were in the current programme have now completed and returned to use as affordable homes. All grant has now been drawn down and the HCA advised that the programme has concluded.
19. Following award of grant in the 2015-18 allocation for the purchase and repair of a further 18 empty properties, work is under way to identify potential acquisitions and we are discussing with the HCA the possibility of commencing with purchases in advance of April 2015 subject to appropriate properties being available.

Future phases and Affordable Homes Programme 2015-2018

20. As detailed in previous board reports, grant has been secured to support delivery of a further 27 new build units during the 2015 -18 programme. The provisional programme for these units is attached at appendix 3.
21. The HCA have recently advised that they are considering requests for further units under the continuous market engagement route, although unlike in previous rounds where indicative bids could be submitted, they require certainty and firm proposals on any additional schemes that are being proposed.
22. Subject to discussions with Galiford Try, the Runhead scheme is a one that Keelman Homes may submit a bid against. Similarly we are in discussion with Gateshead Council about the potential timescales for the programming of the Clasper Village and Bleach Green regeneration sites, with Keelman Homes bidding for grant to support the purchase of affordable units from the appointed developer.
23. Following the recent functional review of Council services, a Housing Growth working group has been formed to look at strategic housing supply across the borough and the most appropriate use of sites for housing projects. Discussions are continuing with officers that attend this group to consider availability and suitability of further sites for Keelman to develop. This work is ongoing.

Next Steps

24. Following confirmation of the HCA grant, work has commenced to arrange transfer of the confirmed sites to Keelman Homes and the planning determination on each sites will need to be progressed. Pre-application advice was obtained on each of the sites and design suggestions incorporated following discussion with the HCA.
25. Discussions are ongoing with Gateshead Council in relation to a continuation of the capital finance loan facility to support the next phases of development.

26. Legal and procurement advice has been sought regarding the appointment and selection of a development partner. A number of developers have indicated that the sites are of a scale that would not fit with their business model and as such have excluded themselves from consideration.
27. The Two Castles Framework that was used to appoint Esh remains valid until December 2015 and we are currently in conversation with them about their capacity to deliver further works in 2015-16, once the current phase of new build concludes, which would provide some continuity and assurance around value for money as framework rates would be honoured. They have also indicated a willingness to work in partnership with both Keelman Homes and Gateshead Council's Construction Services on future developments.
28. A subsequent report with recommendations on the appointment of a development partner will be brought to a future board meeting.
29. In relation to all future phases of work, consultation with Portfolio Holder, Ward Members and local residents will be carried out in line with the procedure followed on the current schemes being delivered.

Risk Management Implications

30. In relation to the HCA grant for both phase 1 and 2, the final deadline for completion of the homes is March 2015. ESH have provided a programme that shows they will be completing all sites in the final quarter of 2014/15.
31. In relation to the Phase 2 sites, Galiford Try is aiming to complete the properties on the Lonnen site within the timescale. As indicated above, the Runhead site will not be complete by the end of March but is to be pursued as a 2015-18 scheme and subject to a grant application.
32. With regard HCA grant on all properties in Phases 1 and 2, the risk to the grant remains with the developers and not with Keelman, therefore there will be no financial risk to Keelman of the completions not being done prior to March 2015, other than the loss in rent and sales opportunities should this occur.
33. The grant allocation for the 2015-18 programme is in Keelman Homes name and therefore the risk of not completing unit numbers within the programme rests with Keelman Homes. Selection of an appropriate development partner with a proven track record is therefore critical to ensure that the proposed programme can be delivered within timescale.
34. A number of development principles have been established to ensure that risks of new build development are mitigated.
35. Each scheme will have its own financial model and there will be no cross subsidy between the sites.
36. Each scheme will provide a minimum projected internal rate of return (IRR) of 5%. The financial model for the Lonnen site has been recalculated to take into account the increase in build costs and the model still achieves the minimum required IRR.
37. Each scheme is expected to demonstrate a positive net present value.

38. The same principles in relation to acquisitions will continue to be applied.

Financial Implications

39. These current phases of the new build programme are being financed through a combination of grant funding and capital borrowing from the council as part of the Councils ongoing Capital programme. A further expression of interest has been submitted to support ongoing delivery through continuation of this loan facility.
40. Financial projections for the next phases of new build have been made on assumed grant rates and on all schemes the grant confirmed reflects what was included in the bid. Financial modelling will be revisited to take into account actual borrowing rates and revised construction costs, although some assumptions have been included in the financial forecasts to reflect these.
41. The affordable rents on all properties set will be subject to review and revaluation on completion of the schemes.
42. The financial model used for all schemes includes management, repair and improvements costs as well as making an allowance for rent losses.

Health and Environmental Implications

43. We will be working with both developers to ensure they fulfil their Social Responsibility Policy which outlines their commitment to ensuring considerate construction, with minimal disruption and environmental impact.
44. The Tyne and Wear Fire Service have confirmed there is funding available to support the installation of sprinkler systems in all of the units provided through phase 1 and phase 2. We have agreed that on future phases we will look to contribute to the cost of sprinkler installations and discuss match funding arrangements with TWFRS.
45. Through targeting vacant sites that have been previously cleared or currently are covered by properties that are not in use, the proposed schemes will significantly improve the local environment.

Equality and Diversity Implications

46. There are no equality and diversity implications. Any accessibility issues will be considered through the design and build phase.

Value for Money implications

47. Throughout the project we will be working closely with the developers to ensure value for money is being achieved on all aspects and specifications of the build.
48. Legal and procurement advice has been obtained in relation to the selection of a development partner for future phases of work to ensure value for money is achieved.

Consultation carried out

49. Briefings have been carried out with Portfolio Holders and Ward Councillors in all wards that will benefit from this activity.

50. All Councillors have received briefings on the project. A series of pre-planning consultation events were carried out in relation to the current activity and this process will be replicated on future phases.

Recommendation

51. The Board is asked to note the update provided and comment on how satisfied it is with the progress made to date.

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