



## Board of Directors

Thursday, 20 November 2014 at 12.30pm  
To be held in Room S21 at Gateshead Civic Centre,  
Regent Street, Gateshead  
Agenda

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Item	Business
1.	<b>Apologies for Absence</b>
2.	<b>Declarations of Interest</b>
3.	<b>Minutes</b> To approve as a correct record the minutes of the meetings held on 2 October 2014.
4.	<b>Matters Arising</b>
5.	<b>Management Accounts – Second Quarter 2014/15</b> Report of TGHC Head of Corporate Services
6.	<b>Shared Ownership Policy and Procedures</b> Report of TGHC Head of Corporate Services
7.	<b>New Build and Development Update</b> Report of TGHC Director of Customers and Communities
8.	<b>Date and Time of Meetings 2015</b> To approve the following schedule of meetings in 2015: - Thursday 15 January 2015 at 12.30pm Thursday 19 March 2015 at 12.30pm Thursday 21 May 2015 at 12.30pm Thursday 10 July 2015 at 12.30pm Thursday 17 September 2015 at 12.30pm Thursday 19 November 2015 at 12.30pm

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**(Company number: 06972673)**

Minutes of meeting of the Board of Directors held in the Board Room at Keelman House, Fifth Avenue Business Park, Team Valley, Gateshead on Thursday, 2 October 2014 at 10am

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**Present:**

**Ordinary Trustees**

Brian Kelly (Chair)  
Joanne Carr  
Paul Foy  
Peter Mole

**In attendance**

Neil Bouch (TGHC Director of Customers and Communities)  
Natalie Hewitt (TGHC Head of Corporate Services)  
Phil Gallagher (TGHC Head of Investment and Development)  
Stuart Gibson (TGHC Governance and Risk Officer)

**Apologies**

Anne Connolly  
Linda Hitman  
Hannah Shepherd

**1 DECLARATIONS OF INTEREST**

No interests were declared.

**2 MINUTES**

The minutes of the meeting of Keelman Homes held on 14 July 2014 were approved as a correct record.

**3 MATTERS ARISING**

**(a) Kibblesworth Update**

It was noted that Kibblesworth won the Best New Build Category at the NFA Awards which took place as part of the NFA Annual Conference in July 2014.

## **(b) Empty Homes – Update**

- 7 Mallory Place is now in Keelman Homes' ownership and being advertised.
- 17 Keats Walk is in Keelman Homes' ownership and on offer.
- 16a Brearley Way is in Keelman Homes' ownership and being advertised.

## **4 REPORT OF THE BOARD AND FINANCIAL STATEMENT**

The report of the Board and Financial Statements will be presented to the Annual General Meeting.

The Report of the Board and Financial statements are for the financial year 1 April 2013 to 31 March 2014. This is the fourth full financial year in which trading activity has taken place within Keelman Homes.

In previous years the Report of the Board and Financial Statements has been produced following the format set out in the Statement of Recommended Practice (SORP): Accounting and Reporting by Charities issued in March 2005. This year Keelman Homes has changed to reporting under the Statement of Recommended Practice: Accounting for Registered Social Housing Providers. As part of this change, the comparative financial statements for 2012/13 within this year's accounts have to be restated.

The Financial Statements for the year ended 31 March 2014 were submitted.

The financial result for the period was a surplus of £69,000 (2013: £34,000 deficit). The surplus was mainly generated by the income from the sales of the shared ownership properties at Kibblesworth, which generated a surplus of £159,000.

The Financial Statements show total reserves on the balance sheet at £2,730,000 (2013: £2,661,000). This includes the land value for Kibblesworth and the increase in reserves from the income and expenditure account of £69,000.

The principles of the SORP have been applied, including component accounting for fixed assets. The prior year figures have also been restated as a comparative following the change in accounting policy.

These accounts have been audited by the external auditors KPMG and they have been signed off as a true and accurate record.

- RESOLVED –
- (i) That the Report of the Board and Financial Statements for the year ended 31 March 2014 be approved.
  - (ii) That the Chair of the Board be authorised to sign the Report of the Board and Financial Statements as a correct record.

## **5 MANAGEMENT ACCOUNTS – FIRST QUARTER 2014/15**

The Board received an update on the management accounts for the first quarter of the financial year 2014/15.

The accounts show Keelman Homes has made a surplus of £15,636 in the first quarter, compared to the expected deficit of £22,792.

It is still expecting to make an overall deficit in this financial year, however it is now being forecasted that the deficit for the year will be reduced to £17,238 compared to the budgeted deficit of £91,165 (a reduction of £73,927).

The decrease in the forecasted deficits (both quarter 1 and year end) is mainly due to a decrease in the cost of loan interest repayments required in year. The budget assumes that new loan financing would be taken early in the year and that two new loan repayments would be required, however, it is now being forecasted that the loan will not be taken out until later in the year and that only one new loan repayment will be required.

RESOLVED – That the information be noted.

## **6 ANNUAL GENERAL MEETING**

Arrangements for the Charity's Annual General Meeting ("AGM") and the process for the retirement of one third of the Ordinary Trustees were reported.

The requirements for the Charity's AGM are governed largely by the provisions of the Companies Act 2005 and the Charity's Articles of Association.

Since Keelman Homes was established, The Gateshead Housing Company (TGHC) has been the sole member of the Charity. As such it had the right to attend general meetings (including the AGM) and exercise all the rights which are reserved to the general members of a company.

Keelman Homes Board, TGHC Board and Gateshead Council agreed a report in February 2014 changing the governance structure of Keelman Homes. This has effectively resulted in the ownership of Keelman Homes transferring from TGHC to Keelman Homes' trustees. The new governance arrangements have subsequently been confirmed by the Charities Commission, Companies House and the Homes and Communities Agency (HCA). As such, this means that the AGM is a meeting of Keelman Homes with themselves (the trustees).

The AGM must be held in the calendar year 2014 and not more than 15 months after the last AGM. The last AGM was held on 21 November 2013, therefore the AGM must be held no later 31 December 2014.

At the AGM, the members receive the accounts of the Charity for the previous financial year, receive the Trustees' report on the Charity's activities since the previous AGM, accept the retirement of those Ordinary Trustees who wish to retire or who are retiring by rotation, appoint or if appropriate elect Ordinary Trustees to fill the vacancies arising and appoint auditors for the Charity.

The annual report of the Trustees of the company, together with the audited accounts, have been approved earlier at this meeting.

21 clear days' notice of the AGM must be given to TGHC, calling the AGM. Therefore, it would need to be held no earlier than 20 October 2014.

The next scheduled meeting after the Board Meeting in September is on 20 November 2014. It is proposed therefore that the AGM be held immediately after this meeting.

The normal company practice is for the Chair of Keelman Homes Board to preside.

One third (or the number nearest to one third) of the Ordinary Trustees must retire at each AGM, those longest in office retiring first and the choice between any of equal service being made by drawing lots.

If the members of the Charity, at the meeting at which a Trustee retires in the above manner, do not fill the vacancy, the Trustee shall, if willing to act, be deemed to have been reappointed unless at the meeting it is expressly resolved on to fill the vacancy.

Keelman Homes currently has a full composition of four Ordinary Trustees. It is proposed that the retiring Ordinary Trustee, if willing to act, be reappointed.

- RESOLVED –
- (i) That the information be noted.
  - (ii) That the Annual General Meeting be held immediately after the Board Meeting on 20 November 2014.
  - (iii) That the proposed arrangements for the retirement and subsequent reappointment of a third of the Ordinary Trustees be agreed.
  - (iv) That the longest serving Ordinary Trustee retire at the next AGM and if willing to act, be reappointed at that meeting.

## **7 NEW BUILD AND DEVELOPMENT UPDATE**

The Board received an update on the current phases of new build activity for Keelman Homes.

There are 15 units currently being developed in Phase 1, utilising developers grant and working in partnership with Esh Construction Services. All properties in this Phase are expected to be complete within the current financial year to comply with HCA grant conditions.

Phase 2 of the new build programme proposes 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. 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 Galliford Try and they are introducing grant into the schemes.

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).

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.

In line with requirements set out by the Charities Commission, in order to progress with sales and dispose of land as a non-exempt charity, Keelman Homes needs to:-

- (a) obtain and consider a written report on the proposed disposition from a qualified surveyor instructed by the trustees and acting exclusively for the charity,*
- (b) advertise the proposed disposition for such period and in such manner as is advised in the surveyor's report (unless it advises that it would not be in the best interests of the charity to advertise the proposed disposition), and*
- (c) decide that they are satisfied, having considered the surveyor's report, that the terms on which the disposition is proposed to be made are the best that can reasonably be obtained for the charity.*

As the properties at the Lonnen are currently being marketed based on the local agents estimated valuation and are attracting some interest, it is proposed that the Board delegate authority to negotiate sales to the TGHC Managing Director and Director of Customers and Communities, subject to offers and sales being progressed in line with a qualified surveyor's report.

Extensive site investigation works identified the need for an electrical diversion at the Runhead Site which has had an impact on the timescale for the programme. Additionally the developer has recently had confirmation from Northumbrian Water that there is a sewerage drain cutting across the site which will either need to be diverted or will compromise the number of units than can be achieved on the site.

The service issues identified mean that this scheme will not be able to be delivered within the timescales necessary to achieve HCA grant conditions in the current round of allocation. However, Galliford Try have committed to holding their costs and are exploring the possibility of using grant allocation from their 2015-18 award to supplement the scheme costs.

Some contingency sums were built into the original model and subject to receiving revised costs from Galliford Try and confirmation that they can match grant contribution from their 2015-18 allocation, the viability of the scheme to ensure it can continue with the proposed number of units will be reassessed. The Board received an update on the Empty Homes Purchase and Repair programme. The fifth and final property in this current programme was scheduled for completion in September, six months ahead of the deadline for compliance with grant conditions and within the original budget.

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 discussions will take place with the HCA about the possibility of commencing

with purchases in advance of April 2015, subject to appropriate properties being available.

An audit of the first two properties purchased through this programme in relation to compliance with HCA requirements was carried out towards the end of September and the outcome and any recommendations arising will be brought to future Board meetings.

The Board received a presentation at the April meeting on an outline bid submission in relation to future phases and the Affordable Homes Programme 2015-18. The bid was submitted prior to the end of April the number of units in the final were reduced significantly from those detailed in the presentation.

Having discussed the various sites and proposals at length with the local HCA office, it was proposed that due to uncertainties about the programming of the Clasper Village and Bleach Green regeneration sites, that these should not feature in the bid as firm schemes but should be approached via the continuous market engagement route once a developer has been identified via Gateshead Council.

Discussions with the HCA have indicated that there was likely to be an opportunity to consider further sites as and when they become available through continuous market engagement. Work is ongoing to look at additional sites.

The Board felt that Keelman Homes' achievements be publicised and the profile of Keelman Homes needed raising. A leaflet in local offices, an article in TGHC News and a Keelman Homes website were suggested.

- RESOLVED –
- (i) That the update provided on the new build programme and empty homes purchase and repair programme be noted.
  - (ii) That the Board is very satisfied with the progress made to date.
  - (iii) That the acceptance of grant conditions in line with the HCA's funding offer under the Affordable Homes programme (in relation to both New Build and Empty Homes purchase and repair) be confirmed.
  - (iv) That the TGHC Managing Director and the Director of Customers and Communities, in consultation with the Chair, be authorised to negotiation and acceptance of offers on private sales properties.
  - (v) That Keelman Homes' achievements be publicised and the profile of Keelman Homes be raised.

## **8 DATE AND TIME OF NEXT MEETING**

The next Board Meeting will take place on Thursday, 20 November 2014 at 12.30pm in Room S21 at Gateshead Civic Centre, Regent Street, Gateshead.



**Report to Board of Directors**  
**20 November 2014**

**Title: Management Accounts – Second Quarter 2014/15**

**Report of: TGHC Head of Corporate Services**

### **Purpose of Report**

1. To provide the board with an update on the management accounts for the second quarter of the financial year 2014/15.

### **Background**

2. The board approved the Keelman Homes budget for 2014/15 at its meeting on 16 January 2014, as part of a 5 year financial forecast.
3. The Accounts Team produces quarterly management accounts which detail actual year to date charges, the budget year to date, any variances to budget and a year end forecast. This report has been included in the Appendix to this report.

### **Management Accounts**

4. The management accounts for the second quarter of the 2014/15 financial year are shown below:

	<b>YTD Actual (£)</b>	<b>YTD Budget (£)</b>	<b>YTD Variance (£)</b>	<b>Annual Budget (£)</b>	<b>Annual Forecast (£)</b>
Income	257,288	296,979	(39,691)	593,957	532,842
Expenditure	234,541	342,562	108,021	685,122	553,566
<b>Surplus/(Deficit)</b>	<b>22,747</b>	<b>(45,583)</b>	<b>68,330</b>	<b>(91,165)</b>	<b>(20,724)</b>

5. The management accounts show Keelman Homes has made a surplus of £22,747 in the second quarter, compared to the expected deficit of £45,583.
6. We are still expecting to make an overall deficit in this financial year however we are now forecasting that the deficit for the year will be reduced to £20,724 compared to the budgeted deficit of £91,165 (a reduction of £70,441).
7. The decrease in the forecasted deficits (both quarter 2 and year end) is mainly due to a decrease in the cost of loan interest repayments required in year. The budget assumes that new loan financing would be taken early in the year and that two new loan repayments would be required, however, the new loan wasn't taken out until October and therefore only one new loan repayment will be required.

8. The accounts have also been impacted in the second quarter by the change from producing our statutory accounts under the Charities Statement of Recommended Practice (SORP) to the Housing SORP, in conjunction with our external auditors KPMG. This change in accounting policy was implemented when producing the 2013/14 statutory accounts and has an impact on the management accounts in relation to depreciation. Component accounting in relation to our fixed assets has now been implemented and this has seen a reduction in the depreciation charge and in the released grant funding.
9. Budgets will continue to be carefully monitored, with income and expenditure forecasts made on a prudent basis, until accurate trend analysis can be established.

#### **Impact on tenants**

10. Whilst this report does not impact on tenants directly, appropriate financial monitoring and control will ensure efficiencies are maximised and redirected to services that directly impact on tenants

#### **Risk Management Implications**

11. Regular and accurate monitoring will ensure that that the strategic risk within the business plan (insufficient available financial resources) is effectively controlled.

#### **Financial Implications**

12. The financial implications are contained within the report.

#### **Equality and Diversity Implications**

13. There are no equality or diversity implications arising from this report.

#### **Value for Money implications**

14. Regular financial monitoring and control will ensure efficiencies are maximised and then utilised in the most appropriate manner.

#### **Health implications**

15. There are no health implications arising from this report.

#### **Environmental implications**

16. There are no environmental implications arising from this report.

#### **Consultation carried out**

17. There has been no consultation carried out in relation to this report.

## **Recommendation**

18. The Board is asked whether it is satisfied with the financial management of the revenue budgets for the second quarter of the 2014/15 financial year.

**Keelman Homes  
Management Accounts – September 2014**

### Executive Summary

1. The overall management accounts for the second quarter of the 2014/15 financial year are shown below:

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Income	257,288	296,979	(39,691)	593,957	532,842
Expenditure	234,541	342,562	108,021	685,122	553,566
<b>Surplus/(Deficit)</b>	<b>22,747</b>	<b>(45,583)</b>	<b>68,330</b>	<b>(91,165)</b>	<b>(20,724)</b>

2. The overall surplus at the end of the second quarter is £22,747 against an expected deficit budget of £45,583, giving a positive variance to budget of £68,330.
3. The original budgeted deficit of £91,165 is now expected to reduce by the year end to £20,724, a variance of £70,441. This is mainly due to a decrease in the forecasted cost of loan repayments in year, due to not drawing down new loan financing until October, meaning only one repayment is due on this new loan rather than the two new loan payments that were originally budgeted for.

### Income

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Rent	187,207	204,756	(17,549)	409,511	391,962
Service Charges	1,438	1,716	(278)	3,432	2,876
Shared Ownership Rent	14,874	16,260	(1,386)	32,519	31,133
Mgmt. of other Properties	34,584	31,070	3,514	62,140	69,168
Bad Debt	(4,095)	(4,095)	0	(8,190)	(8,190)
Void Loss	(1,380)	(2,048)	668	(4,095)	(3,427)
Release of grant funding	24,660	49,320	(24,660)	98,640	49,320
<b>Surplus/(Deficit)</b>	<b>257,288</b>	<b>296,979</b>	<b>(39,691)</b>	<b>593,957</b>	<b>532,842</b>

4. Rental income received for Keelman Homes properties is currently £17,549 less than the budget for the first 6 months and is forecasted to remain under budget by the end of the year. The reduction in rent is due to 3 of the Empty Homes Initiative properties not being let by the end of the second quarter. The budget assumed that all of the properties would be let for the full year. The budget also assumed that the 9 properties at Runhead would be complete and let for 3 months of this financial year, this is now unlikely to happen due to site issues, further reducing the rental income forecast.
5. Service charge income is less than budget year to date by £278 and is forecasted to be £556 less than budget by the year end. This decrease is due to fewer tenants than budgeted requesting discretionary services such as the gardening scheme and community alarms, for which they must pay a service charge.
6. Shared ownership rent is currently £1,386 less than budget and we have forecasted that income for the year end will remain less than budget. The budget assumed all 13 properties would be sold by the start of the year and we would receive a full

year's rental income, however only 10 had been sold at the start of the year. Further sales have been completed in April and July with the final property awaiting completion of sale.

7. The income for management of other properties is a management fee we receive for managing properties that belong to other organisations. The fee is based on a percentage of the net rent and is currently £3,514 greater than the budget. This is due to some properties coming under management earlier than we had assumed in the original budget. All properties that were expected to be handed over this year in the budget have now been handed over.
8. We have kept the bad debt provision at the budgeted level, which was 2% of the annual rental income. At this point, we see no need to increase or reduce this provision, however we will continue to monitor the level of arrears and adjust this provision if necessary going forward.
9. Void rent loss for the second quarter has only been £1,380 against a budget of £2,048. We have prudently forecasted that the void rent loss will be on budget for the remaining months of the year, giving a total loss by the year end of £3,427. It is likely that voids will remain low however and high demand for the new properties should see the void rent loss be lower than the currently forecasted figure by the year end.
10. The grant funding relates to Homes and Communities Agency (HCA) funding we have received for the new build properties at Kibblesworth and for the purchase and repair of properties through the Empty Homes Initiative. All HCA funding due has now been received for the Kibblesworth properties and Empty Homes Initiative Properties. Due to the decision to change from reporting under the Charities SORP to the Housing SORP, the period over which we release the grant funding has increased from 50 years to 100 years. This is to match the period the structure of the properties are now being depreciated over and means the level of grant funding released this year is half of the budgeted amount.

## Expenditure

	YTD Actual (£)	YTD Budget (£)	YTD Variance (£)	Annual Budget (£)	Annual Forecast (£)
Loan Interest Repayments	102,480	184,309	81,829	368,618	286,418
Repair Costs	2,731	6,602	3,871	13,204	9,333
Void Costs	0	6,602	6,602	13,204	6,602
Management Fee	9,375	9,600	225	19,200	18,750
Depreciation	95,989	126,567	30,578	253,133	191,978
Legal Costs	8,264	6,150	(2,114)	12,300	14,414
External Audit	6,069	2,732	(3,337)	5,463	8,800
Shared Ownership sale costs	2,900	0	(2,900)	0	4,150
Bank Charges	61	0	(61)	0	122
Leasehold Service Charges	602	0	(602)	0	1,204
NNDR	895	0	(895)	0	895
Subscriptions	232	0	(232)	0	619
CDMC Services	1,200	0	(1,200)	0	2,400
Marketing	500	0	(500)	0	500
Consultancy	3,243	0	(3,243)	0	6,486
HCA Audit Fee	0	0	0	0	895
<b>Surplus/(Deficit)</b>	<b>234,541</b>	<b>342,562</b>	<b>108,021</b>	<b>685,122</b>	<b>553,556</b>

11. Loan interest repayments are agreed amounts for the duration of the loan. The first loan repayment was made in September 2014 and a further payment is due in March 2015. When setting the budget we had forecast that the draw down on the new additional loan in 2014/15 would be made early in the year and therefore two repayments would be required in year on this new loan. The new loan was not actually drawn down until October therefore only one repayment will be made in the year on the new loan. We have reduced the forecast to £286,418 taking this in to consideration.
12. Repair costs for the second quarter are £2,731, which is £3,871 under budget. We have prudently forecasted that the next 6 months will come in on budget, however as many items will still be under warranty and the properties should remain in good condition, it is possible that further savings could be made from this budget by the year end.
13. We have not incurred any costs for void works in Keelman Homes properties in the second quarter. We have forecasted that the next 6 months will come in on budget giving a £6,602 saving for the year. However due to the low void levels at these properties, and the general condition of the properties, further savings may be made on this budget by the year end.
14. The management fee was agreed at a price per property for The Gateshead Housing Company to manage all of the Keelman Homes properties. We have removed the management fee for the 9 properties at Runhead as they will not be completed this financial year. We have assumed the properties currently being built will be completed as per the timescales used in setting the budget and therefore the cost will be as budget.
15. The depreciation charge is £30,578 under budget and is forecasted to be £61,155 under budget at year end. This is due the implementation of component accounting following the change to reporting under the Housing SORP. Component accounting means that each component of a property is depreciated over its individual life, rather than the whole property being depreciated at the same rate. We have also removed any charge for the properties at Runhead as they will not be completed in this financial year. The charge for the new build currently under development is based on the anticipated build costs. Once the properties have been completed, and we know the actual final build cost of the properties, we will be able to update the figure to the exact amount.
16. In the second quarter we have incurred £8,264 of legal costs which relate to the sale of a shared ownership property, purchase of empty homes properties and land transfers for the new build sites. We are expecting further legal charges later in the year from Gateshead Council who raise Legal Services recharges to Keelman Homes twice a year. We are expecting this budget to overspend at year end.
17. As a limited company, Keelman Homes must have its accounts externally audited each year. We have accrued the cost of external audit for 2014/15 based on the budget. The exact fee will not be agreed until near year end when planning begins with KPMG for the auditing of the accounts. The budget is currently forecasting to overspend due to additional costs incurred on the 2013/14 audit. This was due to the work required for the change from the Charities SORP to the Housing SORP and costs in completing a corporation tax return for the first time.

18. In order to assist in the sales of the remaining shared ownership properties we have employed the services of an estate agent (Reeds Rains) to advertise the properties on our behalf. On completion of any sale we have to pay them a commission for that sale. During the second quarter, we sold two properties and have a further one to sell which may incur commission charges of £2,000 should it be sold through Reeds Rains. As part of the HCA requirements on sales of shared ownership properties we must get an independent valuation of the properties every three months, due to the delay in selling the last few properties we have had to get the properties revalued at a cost of £150.
19. We have also incurred some minor bank charges for making CHAPS payments that were required when Keelman Homes purchased land at The Lonnen, one of the new build sites. Whilst we try to minimise using CHAPS as a payment method to avoid these extra costs it is not always possible. We have also incurred bank charges for an audit report from our bank which KPMG requested as part of the external audit
20. Three of the properties that Keelman Homes purchased as part of the Empty Homes Initiative were former Gateshead Council properties located in a low rise block, meaning we have only purchased the leasehold of the property and not the freehold. As a leaseholder, we have to pay annual services charges to Gateshead Council to cover the shared areas of the building. The current forecast is based on the estimated service charge invoice we have received. We will receive an adjusted actual service charge invoice in the following financial year once all the costs are known.
21. We have had to pay National Non Domestic Rates (NNDR) for the new build site at Felling Library. When we took ownership of the site the library building was still standing meaning we were liable for business rates until demolition began.
22. Keelman Homes has subscribed to the North East Chamber of Commerce and the Independent Housing Ombudsman during the year. Both of these subscriptions will be annual costs going forward and will need to be built in to any future year's budgets.
23. Due to a lack of expertise internally, we have had to contract an external company to carry out the Construction Design Management Coordinator (CDMC) role on the new build sites. The cost for The Lonnen new build site is £2,400 and we have agreed a further fee of £1,980 for CDMC at the Runhead site. As this site is unlikely to progress this year, we have excluded these costs from the forecast.
24. The new build site at the Lonnen contains 6 properties for sale. In order to promote these properties, we have paid £500 for marketing material although we don't anticipate any of the sales to complete until next financial year. We are not expecting to incur any further marketing costs this financial year. We will need to include a marketing budget in future years if we are planning to sell any properties.
25. We have employed the services of Judy Mackley, a Housing Funding Consultant, on an ad hoc basis to provide advice and guidance on grant funding issues and to correspond with the Homes & Communities Agency (HCA) on our behalf. As we lack this experience and knowledge in house, we will need to build these costs in to future year's budgets as we will continue to require expert advice.
26. We were required by the HCA to carry out a compliance audit this year. The audit has been carried out on the Empty Homes Programme during September/October

by an independent consultant for an agreed fee. It is likely that we will be required to carry out further audits by the HCA in future years and therefore will need to build these costs in to future budgets.



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**Title:** Shared Ownership Policy and Procedures

**Report of:** TGHC Head of Corporate Services

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### **Purpose of Report**

1. To provide the Board with a report on the Shared Ownership policy and procedures which have been developed in conjunction with leaseholders (i.e. shared owners).

### **Background**

2. Shared ownership is part of a government funded part buy/part rent scheme to help first-time buyers become home owners.
3. The Leasehold Services Team provides leasehold management services for 13 Shared Ownership properties at Kibblesworth.
4. The Homes and Communities Agency (HCA) recommend that all shared ownership providers have a clear and concise policy detailing how the shared ownership product will be delivered.
5. Following an internal audit of leasehold services it was recommended that a shared ownership policy should be developed to ensure both the leasehold team and leaseholders (i.e. shared owners) fully understand their respective roles and responsibilities.
6. The policy and procedures take into account best practice published by the HCA, National Housing Federation (NHF) and Council of Mortgage Lenders (CML).

### **Shared Ownership Policy and Procedures**

7. Attached at the Appendix to this report is the Shared Ownership Policy and procedures which were discussed and agreed by leaseholders at the Leasehold Service Improvement Group (SIG) on 8 September 2014. All the Appendices attached to the Policy have been posted on the TGHC website.
8. The policy and procedures have been developed to ensure that shared ownership properties are allocated to customers in a fair and consistent manner, in accordance with best practice and the Keelman Homes lettings policy, which mirrors the Council's lettings policy.

9. The majority of shared ownership schemes are funded by HCA and, as such, the policy and procedures ensure that the management of these homes conforms to the conditions of funding, as detailed in the Capital Funding Guide, in addition to acting in a legally compliant customer focused and transparent manner.
10. The policy and procedures cover all aspects of shared ownership including marketing, applications, allocation, rent collection, staircasing (purchase of additional shares) and sales.
11. The HCA recommend that all shared ownership providers develop and publish a flexible tenure policy. Flexible tenure is designed to enable a shared owner to remain in their home through either selling some shares back to the landlord (downcasing) or by selling all of their shares and becoming a tenant at an Affordable Rent. Any repurchase of the property will be considered as a last resort.

### **Impact on tenants**

12. There is no impact on tenants directly. The impact on leaseholders (i.e. shared owners) is that services will be applied consistently across the shared ownership stock.

### **Risk Management Implications**

13. The introduction of a shared ownership policy and procedures will ensure that the following risks are effectively managed: -
  - Properties left unsold will require security to prevent squatting.
  - Income may be reduced if accounts are not created and managed in line with the lease terms
  - Poor customer satisfaction levels with the cost and standard of charges and the way they are administered
  - Leaseholders will refer the reasonableness of charges to the First-Tier Tribunal (Property Chamber)
  - Rent and charges could be applied inconsistently across the Keelman Homes Shared Ownership stock.

### **Financial Implications**

14. There are no financial implications arising directly from this report.

### **Equality and Diversity Implications**

15. The policy will ensure that services are applied fairly to all leaseholders (i.e. shared owners).

### **Value for Money Implications**

16. The development of the shared ownership policy will enable staff to implement procedures to maximise income recovery from leaseholders.

### **Consultation carried out**

17. Consultation was carried out with leaseholders via the Leasehold Service Improvement Group (SIG).

### **Recommendation**

18. The Board is requested to approve the shared ownership policy and procedures, as detailed in the Appendix to this report.



## Shared Ownership Policy

### **1. Introduction**

- 1.1 Keelman Homes Limited is a charitable company limited by guarantee, which was created in 2009 to develop and build a range of good quality affordable homes.
- 1.2 Keelman Homes Limited is governed by seven trustees who are the members of the company. These are made up of two Council representatives, one TGHC representative and four independent trustees.
- 1.3 The way the company carries out its business is governed largely by the provisions of the Companies Act 2005 and its Memorandum and Articles of Association.
- 1.4 Keelman Homes Limited supports the development of shared ownership as one element of promoting mixed and sustainable communities through New Build Homebuy.
- 1.5 The Gateshead Housing Company (TGHC) has agreed to provide certain housing management services in respect of the properties owned by Keelman Homes Limited under a Management Agreement.
- 1.6 The term of the Management Agreement is for the period 21 January 2010 until 31 December 2015.

### **2. Definitions**

- 2.1 **Affordability:** The HCA considers a 45% household debt to net income ratio as maximising shared owners contribution towards home ownership. Keelman Homes have agreed a 40% maximum affordability criteria will be applied against all applications.
- 2.2 **Flexible Tenure:** Is the voluntary repurchase by the Landlord of some or all of a shared owners interest in their home.
- 2.3 **Market Value:** The purchase of further shares will be at the open market value of the property at the time of purchase.

- 2.4 New Build HomeBuy: This is a Government initiative which allows the buyer to purchase a proportionate share of a new property, built with public sector subsidy. The minimum share purchased will be determined on a scheme by scheme basis.
- 2.5 Protected Area: The Kibblesworth Scheme has been designated as a Protected Area under The Housing (Right to Enfranchise)(Designated Protected Areas)(England) Order 2009. Shared owners can therefore acquire 100% of the shares in the property but they do not have the right to give notice to acquire the freehold of the property.
- 2.6 Rental Element: The HCA encourage all registered providers to set rents that average no more than 2.75% of the value of the unsold equity at the point of initial sale.
- 2.7 Section 106 Agreement: Local planning obligation for affordable housing
- 2.8 Shared Ownership: This is used in this policy as a generic term for Low Cost Home Ownership Schemes.
- 2.9 Staircasing: Purchasers may buy additional shares in their home as and when they can afford to do so. The minimum additional share is 10% of the remaining unsold value of the property.

### **3 Aim of Policy**

- 3.1 TGHC will provide applicants for shared ownership with full information on estimated costs, rights, responsibilities and the obligations of being a shared owner. All applicants will be advised to seek independent financial advice regarding their financial circumstances.
- 3.2 TGHC aims to ensure that shared ownership properties are allocated to customers in a fair and consistent manner, in accordance with best practice, and the Keelman Homes lettings policy, which mirrors the Council's lettings policy.
- 3.3 The majority of Shared Ownership schemes are funded by the Homes and Communities Agency (HCA) and as such TGHC will ensure that the management of these homes conforms to the conditions of funding, as detailed in the Capital Funding Guide, in addition to acting in a legally compliant, customer focused and transparent manner.
- 3.4 The local HomeBuy Agent, will carry out headline assessments of all applications. ISOS, under an SLA, will carry out Eligibility and Financial Assessments on behalf of TGHC, based on HCA specified criteria.
- 3.5 TGHC will calculate and collect all shared ownership rents and manage the leasehold agreement including the purchase of additional shares.
- 3.6 This policy has been developed in partnership with leaseholders.
- 3.7 **Our Commitments to Leaseholders (i.e., shared owners)**  
TGHC has agreed with Leaseholders (i.e., shared owners) that we will:

- Meet the responsibilities to Leaseholders (i.e., shared owners) under the terms of their lease.
- Ensure that value for money is achieved in the provision of buildings insurance and the management fee.
- Provide a Welcome Pack to all new Leaseholders (i.e., shared owners) summarising their rights, responsibilities and the services available to them.
- Endeavour to keep blocks and estates in the standard agreed with residents.
- Collect from Leaseholders (i.e., shared owners) all monies due from them under the terms of their leases and offer support, advice and information to anyone having difficulty in making payment.
- Repay, in a timely manner, all monies and refunds due to Leaseholders (i.e., shared owners).
- Ensure all Leaseholders (i.e., shared owners) are able to access our services and the needs of all our customers are addressed.
- Make details of the management fee available to Leaseholders (i.e., shared owners) and their representatives.
- Ensure that Leaseholders (i.e., shared owners) uphold the covenants in their leases, particularly with regard to harassment, neighbour nuisance and other actions taken by them that are likely to affect other residents.
- Ensure that Leaseholders (i.e., shared owners) have access to a range of tenancy management services that are, as far as possible, aligned to those services available to tenants.

## 4. Policy

### 4.1 What is a 'Shared Ownership' leaseholder?

A Leaseholder (i.e., shared owner) is someone who is able to buy a share of the property and pay rent on the remaining share for a fixed number of years. Although the term is fixed at the start, it decreases every year until it expires and the ownership of the property returns to Keelman Homes ('the landlord').

4.1.2 A shared ownership leaseholder can buy further shares in the property at the market value of those shares at the time of purchase. Buying further shares is referred to as 'staircasing'. Normally, when the Leaseholder owns 100%, he or she can acquire the freehold in the property for no charge, but that does not apply at the Kibblesworth scheme, as the properties are in a protected area. The leaseholder will usually have a 99 year lease on the property.

4.1.3 Purchasers must have insufficient income or available resources to be able to afford the outright purchase of satisfactory housing at current market prices, but must have sufficient savings or income to meet the associated cost of purchasing the initial share in the property and to pay the rental element without financial hardship.

### 4.2 What is the lease?

4.2.1 The lease is the contract between the landlord and the shared ownership leaseholder. It sets out the respective rights and responsibilities of each party. The lease is a legally binding contract and enforceable by law. Current legislation may override parts of the lease.

Plain English guidance notes are provided along with the lease to help explain the key provision of the Shared Ownership Lease.

### **4.3. Leaseholders' Rights (i.e., shared owners)**

4.3.1 TGHC is bound by the terms of the lease issued by Keelman Homes ('the landlord'). All leases will include information about:

- The parties to the lease
- The market value of the whole property, the amount the shared owner is paying and the percentage bought
- The rent to be paid, how it is determined, when payment is due and how it will be reviewed
- The arrangements for collecting contributions towards additional costs.
- The procedures to purchase additional shares in the property ('staircasing')
- The process to assign or transfer the lease.
- The restrictions on 'sub-letting' the property.
- The grounds for the landlord ending the lease by forfeiture or re-entry.
- The responsibilities of the leaseholder (i.e., shared owner) in respect of repair, decoration, servicing and alterations to the property.
- Details of the responsibilities of both the Leaseholder and Keelman Homes ('the landlord').

### **4.4 Market Value**

4.4.1 Property sale prices will be based on independent valuations of market value at the initial sales stage and on any subsequent 'staircasing'. Where a property remains unsold, the valuer will review the valuation every three months to ensure that the property is still marketed at the correct price. Properties cannot be offered for sale below their open market valuation, without Homes and Communities Agency (HCA) approval.

4.4.2 All valuations must be carried out by a member of the Royal Institution of Chartered Surveyors (RICS).

### **4.5 Marketing**

4.5.1 TGHC recognises the need for early marketing of the schemes. This will be carried out by TGHC through the company website, newspaper, brochures and Tyne & Wear Homes. The Homebuy Agent for the area will also market on their website and where applicable a qualified local estate agent will be appointed.

4.5.2 The local estate agent will be expected to prepare sales brochures and market the properties in all forms of media including newspapers, on-line and within local estate agents windows. In some cases artists' impressions will be used if a photograph is not appropriate. The instructions to the agent will be to 'sell off-plan' where appropriate.

4.5.3 TGHC will carry out all viewings with prospective buyers as the Company will have an on-going relationship with any prospective buyer.

4.5.4 Keelman Homes ('the landlord') may install fixtures and fittings that exceed the normal lettable standard or the HCA's Design and Quality Standards in shared ownership properties to help marketability. This could include carpets or white goods.

## **4.6 Applications**

- 4.6.1 All initial applications for schemes must be made through, the Homebuy Agent for the area.
- 4.6.2 The Homebuy Agent will undertake an initial affordability assessment at application stage to ascertain the maximum share that an applicant could afford and sustain based on HCA guidance.
- 4.6.3 TGHC through a service level agreement with ISOS Housing, must ensure a further rigorous affordability check is carried out. This takes into account savings and outgoings, to assess the sustainability of the purchase, and the share sold should reflect both of these two affordability assessments.
- 4.6.4 Applicants are eligible for shared ownership if they meet four tests of suitability. The tests are:
- Household income is below £60,000 but;
  - Able to afford a shared ownership property without hardship
  - First time buyer or in priority need of housing if already a homeowner
  - Unable to afford satisfactory housing at current market prices
- 4.6.5 Where Keelman Homes ('the landlord') is providing affordable housing under a Seciton 106 Agreement, this may override or increase the significance of one or more of a number of factors considered by TGHC when making an offer of home ownership. Under no circumstances can Section 106 priorities be allowed to override the affordability criteria.
- 4.6.6 The local HomeBuy agent will provide TGHC details of all approved (and declined) applications to enable the allocation of properties through Keelman Homes allocation policy.

## **4.7 Allocations Policy**

- 4.7.1 Allocation of shared ownership properties will be made in line with the Keelman Homes Policy (see Appendix 1)
- 4.7.2 If there are only enough interested applicants or there is less interest than there are properties then no requirement to attach any further criteria will be necessary. If, however, there is more demand than supply then the Keelman Homes Policy will be applied in order to rank those applicants.
- 4.7.3 The Keelman Homes policy has an associated Local Lettings Plan.
- 4.7.4 Shortlisting of all applicants (if there is demand of more than one family per property) will be completed by the TGHC Lettings Team, and then passed back to the local Homebuy Agent, showing full details of the criteria behind the ranking.

## **4.8 Sales**

- 4.8.1 Purchasers must purchase the maximum share they can afford to sustain. The initial share must be a minimum of 25% and a maximum of 75% purchased at the market value of the property.

4.8.2 A minimum deposit of 5% of the value of the share purchased is required plus a holding fee which is deducted from the initial sale price when the property completes. If a prospective buyer does not complete the sale the holding fee will not be refunded.

4.8.3 The minimum share, rent payable and shared ownership arrangements will be determined on a scheme by scheme basis.

#### **4.9 Handover/Defects package**

4.9.1 TGHC will issue Leaseholders (i.e., shared owners) with a Welcome Pack, containing a Leaseholders Guide, Guarantees, maintenance information and all product information for their home (see Appendix 2)

4.9.2 TGHC will meet its initial contractual and statutory obligations towards shared ownership properties. Once the usual defect period has expired, the leaseholder (i.e., shared owner) has full repairing responsibility and becomes liable for all maintenance costs on the property, even if they only have the minimum 25% equity share.

#### **4.10 Rental Element**

4.10.1 Leaseholders (i.e., shared owners) will pay rent to Keelman Homes on the remaining share they do not own. TGHC will ensure that any rent payable will be calculated to be affordable in-line with the Homes and Communities Agency (HCA) rent setting guidance.

4.10.2 The rent will be reviewed every year. The reviewed rent will be increased in line with any proportionate increases in the retail prices index (RPI). The rent will be reviewed on an 'upwards only basis'. This means that the level of the rent will not go down when it is reviewed. However, any increase in the rent will be capped at a figure representing the RPI plus 0.5%. This means that where the RPI is zero or negative the most the rent can increase by is 0.5%.

4.10.3 Leaseholders (i.e., shared owners) will be advised of the outcome of the rent review by written notice, as detailed in the lease.

#### **4.11 Services**

4.11.1 Where services are provided to shared ownership properties, these will be referenced in the lease and charges will be set and administered in accordance with current legislation, including the production of annual accounts.

#### **4.12 Buildings Insurance**

4.12.1 Leaseholders (i.e., shared owners) will be provided with copies of the relevant buildings insurance policy confirming the sum for which the property is insured, the name of the insurer, and the risks covered in the policy.

#### **4.13 Accounts**

4.13.1 Individual computerised accounts will be created for each leasehold (i.e., shared owners) property. Each account will be credited with the rental income and debited with rent, buildings insurance, service charges (if applicable) and management fee charges. A six monthly account statement will be produced for each account.

4.13.2 In line with legislation when a demand for payment is issued a notice explaining Leaseholders Rights & Obligations (Service Charges) will be served.

#### **4.14 Rent Arrears**

4.14.1 Any leaseholder (i.e. shared owner) who falls behind with payments will be contacted promptly by the Leasehold Services Team and appropriate action for arrears recovery will be taken in accordance with the Shared Ownership Income Recovery procedures, which mirrors the TGHC Leasehold Recovery procedure (see Appendix 3)

4.14.2 The procedure takes into account the best practice published by the HCA, National Federation (Nat Fed) and Council of Mortgage Lenders(CML).

4.14.3 TGHC will be responsible in their actions to make sure anyone experiencing difficulties in making rent or mortgage payments is made aware of sources of advice available including welfare benefits and debt counselling. We will offer prompt and practical advice at all times.

4.14.4 Where TGHC is satisfied that appropriate courses of recovery action have been taken by staff and rent and charges remain unpaid, legal proceedings will be considered. A number of legal measures would be considered for persistent failure to pay rent including forfeiture (possession) in accordance with the lease.

4.14.5 TGHC will act reasonably and will only take possession action where there is no other reasonable alternative and other avenues to maintain the shared owner in their home have been exhausted.

#### **4.15 Disputed charges**

4.15.1 TGHC will take a proactive approach to the resolution of disputes by ensuring that complaints are dealt with as quickly as possible, to minimise customer dissatisfaction.

4.15.2 To ensure we provide the same standards of customer care as we offer tenants and Right to Buy Leaseholders TGHC Corporate Complaints Policy and procedure will be followed (see Appendix 4)

4.15.3 In appropriate cases TGHC will refer the particulars of a case to the First-Tier Tribunal (Property Chamber) formally the Leasehold Valuation Tribunal, (LVT), for guidance and a ruling.

4.15.4 TGHC will review disputes with the Leasehold Service Improvement Group (SIG) to establish trends and identify service improvements.

#### **4.16 Overpayments**

4.16.1 All overpayments of rental charges by leaseholders (i.e., shared owners) will be automatically transferred to the next financial year. Any request for the repayment of overpaid charges will be considered on an individual basis.

4.16.2 If leaseholders (i.e., shared owners) sell their home during the year then a refund of the balance will be provided.

#### **4.17 Flexible Tenure (Reverse staircasing)**

- 4.17.1 Any leaseholder (i.e. shared owner) who falls behind with mortgage payments or rent payments and could potentially lose their home may be considered for Flexible Tenure.
- 4.17.2 Flexible Tenure is designed to enable a shared owner to remain in their home either by selling some of their shares back to their landlord in order to reduce their mortgage to a more affordable and sustainable level, or by selling all of their shares back to the landlord and becoming a tenant at an Affordable Rent.
- 4.17.3 Any repurchase will be considered as a last resort. The HCA permit the use of Recycled Capital Grant Fund (RCGF) only in cases where other options for avoiding repossession have been exhausted. .
- 4.17.4 There is no 'right' to Flexible Tenure and any offer will be made purely at Keelman Homes discretion subject to HCA eligibility criteria. The flexible tenure policy and procedures will be referred to in all cases (see appendix 5)

#### **4.18 Repairs**

- 4.18.1 The leaseholder (i.e., shared owner) is solely responsible for the maintenance of the property. This includes the maintenance of gardens, and any fences, walls or hedges.
- 4.18.2 In addition to repairs the leaseholder (i.e. shared owner) is also responsible for arranging for all gas installations within the property to be tested (serviced) annually and a copy of the gas service provided to TGHC. Failure to provide the certificate will result in TGHC obtaining entry to the property, carrying out the test and billing the leaseholder (i.e. shared owner) the cost of the service.

#### **4.19 Alterations or Improvements**

- 4.19.1 Leaseholders (i.e. shared owners) must not make any alterations or additions to the property without written approval from TGHC.
- 4.19.2 Any leaseholder (i.e. shared owner) wishing to carry out alterations or additions to their home must submit full details of the proposed works to TGHC.
- 4.19.3 Each request will be looked at on its own merits and will be formally responded to by TGHC following the Alterations and Improvements procedure (see Appendix 6).
- 4.19.4 TGHC cannot withhold consent for improvement by leaseholders (i.e., shared owners) unreasonably. Any refusal of the proposed alterations or improvements will be accompanied with a full written explanation.
- 4.19.5 There is no appeals process. The terms of the lease will be referred to on all occasions.

#### **4.20 Purchase of Additional Shares ('Staircasing')**

- 4.20.1 Leaseholders (i.e., shared owners) can purchase additional shares at any time following the initial purchase. When making further purchases of shares each additional share acquired must be not less than 10% and not more than 25% of

the market value of the property at the time the application to purchase additional shares is made.

4.20.2 As leaseholders (i.e., shared owners) buy further shares the rent will be reduced proportionately to reflect the fact that Keelman Homes interest in the property has reduced. The purchase of additional shares will follow the Keelman Homes 'Staircasing' procedures (see Appendix 7).

#### **4.21 Sale of Share - Assignment or Transfer**

4.21.1 A leaseholder (i.e., shared owner) can sell his/her share at any time and TGHC has a responsibility to assist them in doing this in addition to approving any eventual buyer.

4.21.2 Any buyer must meet the minimum criteria for shared ownership in respect to affordability and personal circumstances except they do not need to maximise the share value that they initially purchase, if they do not wish to do so.

4.21.3 TGHC will follow Keelman Homes procedure for 'Sales and Resales' (see Appendix 8)

#### **4.22 Additional borrowing and change in lender**

4.22.1 The lease does not prevent a leaseholder (i.e. shared owner) from obtaining additional borrowing however any further borrowing is subject to TGHC approval and the terms of the Mortgagee Protection Clause (MPC) which protects the mortgage company and is a fundamental clause in the shared ownership lease.

4.22.2 There is no specific procedure in the case of additional borrowing or change of lender only principals that should be adhered to as each case will be different.

4.22.3 TGHC will approve in writing, all requests to change a lender as long as the leaseholders (i.e., shared owner) legal representative confirms that the sum being borrowed has not increased from the sum owed to the previous lender (i.e. no additional lending ) and that the terms of the mortgage are, in the opinion of TGHC, reasonable given current market conditions and that the original shared owners are still named on the new mortgage.

4.22.4 Under the terms of the MPC only certain advances are protected so it is unlikely that a lender will loan a leaseholder (i.e. shared owner) additional funds for anything other than:

- the premium lent to purchase the initial share;
- further borrowing to enable the purchase of additional shares (staircasing)
- further borrowing to comply with the leaseholders covenants in the shared ownership lease, such as essential repairs; and
- further borrowing to allow one leaseholder to buy out another leaseholders interest (in the same property) providing that the premium (the initial share value) and any further borrowing does not exceed the market value of the leaseholder's share in the property.

4.22.5 All additional borrowing should be for repairs to the home only e.g. replacement boiler or roof, not improvements like a conservatory.

4.22.6 TGHC will not approve additional borrowing for the consolidation of additional debt, the purchase of a car or holiday etc.

4.22.7 All requests for additional borrowing for replacement will be investigated thoroughly by TGHC, with a home visit and technical advice or reports sought where required.

#### **4.23. Subletting and lodging**

4.23.1 The shared ownership lease prohibits sub-letting. This stops the leaseholder (i.e. shared owner) from having the right to sub-let, but allows TGHC to agree to sub-letting or lodging arrangements if they choose to do so in exceptional circumstances.

4.23.2 This is to protect public funds from misuse and to ensure that applicants are not entering into shared ownership for financial gain (apart from the creation of equity).

4.23.3 In all cases sub-letting or lodgers must be approved by the Head of Corporate Services in writing. The principals laid down by the HCA and detailed in the Subletting and Lodging procedure will be referred to in all cases (see Appendix 9)

#### **4.24 Landlords Right to First Refusal**

4.24.1 With a view to ensuring that shared ownership properties at Kibbleworth remain in the ownership of people in need of shared ownership units, there are restrictions on the transfer assignment and subletting of the property after the Leaseholder staircases to more than 80% ownership.

4.24.2 If, at any time after the Leaseholder staircases to more than 80% ownership of the property, the Leaseholder gives TGHC notice that he or she wishes to sell the Lease, Keelman Homes ('the Landlord') can require the Leaseholder either to transfer the Lease back to Keelman Homes ('the Landlord') or to a person nominated by Keelman Homes ('the Landlord'). In both cases the price will be no more than the market value of the Lease with vacant possession.

4.24.3 Keelman Homes ('the Landlord') right of first refusal does not apply if the Lease is transferred or assigned as a result of the divorce or death of the Leaseholder.

#### **4.25 Breaches of lease**

4.25.1 TGHC will take appropriate action whenever it becomes aware that a leaseholder (i.e., shared owner) is acting in breach of the terms of their lease, which may include:

- Non-payment of rental income
- Unapproved works to the home or building
- Improper use of the home or building
- Failure to maintain or damage to the premises
- Refusal of access to TGHC staff and/or their agents
- Anti-social behaviour including harassment or neighbour nuisance

4.25.2 In all such cases TGHC will work with the leaseholder to resolve the issue. However, if the breach continues legal action could be taken which may include seeking an injunction, or action for the forfeiture of their lease.

#### **4.26 Leaseholder Involvement**

- 4.26.1 TGHC has a vision 'of involving residents in everything we do' and 'being a listening and learning organisation'. To provide services that people want and to meet the needs of our diverse community, customers need to be at the heart of all that we do.
- 4.26.2 TGHC will provide leaseholders (i.e. shared owners) with opportunities for participation and involvement on a similar basis to those offered to tenants and Right to Buy Leaseholders including:
- Influencing decisions that affect the housing service
  - Making the neighbourhood a better place to live
  - Giving views on the services they receive
  - Being part of an interest, improvement or review group
  - Helping us better understand the needs of people from diverse groups
  - Helping us to provide better quality, customer focused services
  - Developing their own skills
- 4.26.3 TGHC will also work with leaseholders (i.e. shared owners) through the annual leasehold forum and neighbourhood drop –ins to provide all leaseholders' the opportunity to share information and ideas, to influence services provided to them and to provide the opportunity to discuss issues that are important to leaseholders. This may include the level and quality of services provided and the way charges are set.

#### **4.27. Equality and diversity**

- 4.27.1 TGHC will collect, record, analyse and monitor customer profiling information of leaseholders (i.e., shared owners) and use it to inform service delivery and prioritise resources. We will ensure that this policy is applied fairly to all our customers. We will not directly or indirectly discriminate against any person or group of people because of their race, religion or belief, age gender, disability, pregnancy or maternity, marital status or civil partnership, sexual orientation and social or economic deprivation or other grounds set out in our Corporate Equality Plan.
- 4.27.2 Shared owners will be contacted annually to update their contact details. The most appropriate time of year for this is during the rent review in February.

#### **4.28 Survey**

- 4.28.1 Every year a service user satisfaction survey will be sent out. From the information received, TGHC will investigate to see if any improvements can be made to the service. The results will be collated and discussed with the Leasehold Service Improvement group. They will also be published to all leaseholders via the leasehold newsletter and internally within the organisation.

#### **4.29 Performance monitoring and reporting**

- 4.29.1 TGHC will regularly monitor service provision, associated costs and our performance in collecting shared ownership income and will report to Keelman Homes Board on a quarterly basis as part of the management accounts.

#### **4.30 Feedback**

- 4.30.1 Following the initial purchase the Leasehold Officer will call the leaseholder (i.e., shared owner) after one week and arrange for a home visit at 3 months to

ensure that the shared owner is settling into their home and to pick up any defects and to check on the property condition.

- 4.30.2 Any dissatisfaction or complaints received in any format will be responded to within ten working days. If the leaseholder (i.e., shared owner) is unhappy with any area of the service provided, the issue will be progressed through TGHC complaints procedure or First-Tier Tribunal (Property Chamber) formally the Leasehold Valuation Tribunal (LVT). Applications to the First-Tier Tribunal (Property Chamber) can be made at any time without reference to TGHC complaint procedure.

#### **4.31 Service Delivery and Value for Money**

- 4.31.1 TGHC will encourage leaseholders (i.e., shared owners) to become involved in assessing value for money through the annual leaseholders survey and service improvement groups. We will also develop monitoring and scrutiny procedures involving leaseholders.
- 4.31.2 TGHC will establish good practice through our involvement with the Housing Quality Networks, Leasehold Excellence Network and the North East Leaseholders Benchmarking Group.
- 4.31.3 TGHC will endeavour to set reasonable charges in advance and involve leaseholders in budget setting.

#### **4.32 Auditing**

- 4.32.1 Income and expenditure within the service charge designated account will be reconciled on a quarterly and annual basis.
- 4.32.2 Gateshead Council Internal Audit Service under a Service Level Agreement will audit Leasehold Services every two years. The audit will cover all procedures, risk assessments and accounting.

### **5. How the Policy will be delivered**

- 5.1 The delivery of this policy and associated procedures is the responsibility of the Managing Director of TGHC through the Heads of Corporate Services, Customer Services and Neighbourhood Services, the Customer Services Manager and Leasehold Services Manager.
- 5.2 TGHC will develop procedures which will ensure effective implementation of this policy and provide training for staff to ensure they fully understand the wider issues surrounding shared ownership, and the surrounding legislative framework and procedures.
- 5.3 If staff become aware that there are problems with the effective operation of the policy or the associated procedures, they should report this to the policy owner. This feedback will be incorporated into the policy/procedural review process.

### **6. Risks**

- Properties left unsold will require security to prevent squatting.

- Income may be reduced if accounts are not created and managed in line with the lease terms
- Poor customer satisfaction levels with the cost and standard of charges and the way they are administered.
- Leaseholders will refer the reasonableness of charges to the First-Tier Tribunal (Property Chamber).
- Rent and charges could be applied inconsistently across the Keelman Homes Shared Ownership stock

## **7. Related Procedures**

The following procedures need to be followed to implement the policy:

- Allocations Policy
- Alterations and Improvements Procedure
- Staircasing Procedure
- Sales & Resales Procedure
- Flexible Tenure Policy
- Sub-letting/Lodgers Procedure
- Income Recovery Procedure
- Corporate Complaints Policy
- Corporate Equality Plan

## **8. Review**

- 8.1 This policy will be monitored and reviewed, as appropriate, when strategic, procedural or legislative changes occur or any significant changes are made by the Homes and Communities Agency (HCA ) to the HomeBuy scheme.
- 8.2 Stakeholder groups will be involved and consulted in any review of this policy.
- 8.3 We will use customer feedback to inform reviews and recommend changes to this policy and procedural documents.
- 8.4 Keelman Homes Board will approve the document and any substantial changes to it.



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**Title: New Build and Development Update**

**Report of: TGHC Director of Customers and Communities**

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### **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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### Phase 1 – Revised Property Mix and Financial Projections

Cost Summary and financial projections based on *Affordable Rents*.

Site	Site mix	Units	Cost per unit	Total Cost	IRR	NPV per unit	Cost to Keelman
Kirkwood Gardens	5x2bed flats 1x1bed flat	6	£109,731.00	£ 658,386	5.11%	385	£538,386
Marion Court	1x 1bed bungalow	1	£89,273	£89,273	5.09%	228	£69,273
Strathmore Road	2x 4bed houses	2	£125,600	£ 251,200	5.29%	1450	£211,000
Felling Library	6x 3bed houses	6	£ 115,038	£690,228	5.77%	3519	£570,228
		15		£1,408,887			£1,388,887

- Note that surplus, Internal Rate of Return (IRR) and Net Present Value (NPV) are all shown on a per property basis, over a 50 year period. The IRR is the rate of return expected to be received on the investment. NPV is a standard economic term which shows the present value of net cash inflows generated less the initial investment.

## Phase 2 – Rental Units

Cost Summary and financial projections based on *Affordable Rents*

Site	Site mix	Units	Cost per unit	Total Cost	IRR	NPV per unit	Cost to Keelman
The Lonnen	6x3bed 8x2bed	14	£115,817	£1,621,451	5.38%	1,697	£1341451.58

- Note that surplus, Internal Rate of Return (IRR) and Net Present Value (NPV) are all shown on a per property basis, over a 50 year period. The IRR is the rate of return expected to be received on the investment. NPV is a standard economic term which shows the present value of net cash inflows generated less the initial investment.

In relation to the 6 properties that are proposed to be made available for sale, estimated sales values are as follows:

- 2 x 4 Bed at £170,000
- 4 x 3 Bed at £150,000

These estimates have been made based valuations of similar properties and in consultation with developers, and have been independently verified by a forma valuation based on plans.

### Appendix 3 – Draft Programme for 2015-2018 - Affordable Homes Programme

Year 1 - 2015/16		Year 2 - 2016/17		Year 3 - 2017/18	
Site	Units	Site	Units	Site	Units
<i>New Build</i> Heddon View (LES depot)  Malton Green	2 x 2 bed houses 4 x 2 bed Flats  4 x 2 bed bungalows	<i>New Build</i> Malton Green  West Park	9 x 2 bed houses  2 x 2 bedroom bungalows  6 x 3 bed houses (Rent)	<i>New build –purchase</i> Clasper  Bleach Green	30 Units  30 Units  <i>(Both sites withdrawn from bid to pursue through continuous market engagement following discussion with Gateshead Council)</i>
Empty Homes Purchase and repair (Various)	6 units	Empty Homes Purchase and repair (Various)	6 units	Empty Homes Purchase and repair (Various)	6 units
<b>Totals</b>	<b>16 Rented Units</b>		<b>23 Rented Units</b>		<b>6 Rented units</b>

**Bid for grant to support provision of 45 Rented Units in total. Year 3 sites at Clasper and Bleach Green to be revisited via continuous market engagement.**

*n.b. Intention is to build an additional 2 units at West Park for private sale to support finance on this scheme.*