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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:-
  - (i) Provide the Board with an update on the current phases of new build activity;
  - (ii) Seek Board approval for Keelman Homes to acquire land from Gateshead Council, to support future development activity.
  - (iii) To approve the continued appointment of Esh Construction as the delivery partner for the next phase of new build, in relation to schemes being delivered in 2015, using the Two Castles procurement framework.

### **Background**

2. Further to previous reports that have been presented to the Board regarding activity on New Build Phases 1 and 2, this report provides a further update on progress since the meeting on 15 January 2015.
3. All proposed sites and units referred to in this report have been subject to a desktop appraisal, to ensure the sites meet the strategic needs of the Council in terms of housing provision, planning requirements and housing need.
4. Additionally, all sites proposed, meet the development principles that were formally approved by board and adopted at the June 2013 meeting.

### **Update – Phase 1**

5. This phase of works is being delivered in partnership with Esh Construction Services and will deliver 15 new affordable units, utilising HCA grant that is being introduced by the developer. The sites and proposed property mix are included at Appendix 1.
6. As reported previously the new unit at 73 Marian Court, Teams completed in June 2014 and was subsequently let.
7. The development at Felling Library completed during November with six 3 bed houses being provided. The street name is Nugent Row. An open event was held in early December and was well attended with all six properties being successfully let and customers signed up the following week. Affordable rents of

£101.53 per week are being charged with tenancies commencing 15 December 2014.

8. The development at Strathmore Road completed 12 December with two 4 bed properties being provided. Both properties were let with tenancies commencing on the 15 December and 22 December and affordable rents of £120 per week being charged.
9. Works are continuing at the Kirkwood Gardens site, with completion of the six units estimated to be 27 March 2015. The scheme address is 1-6 Dunn Court in honour of a fallen soldier from the local ward. Properties are expected to be let in April, at rents of £77.59 for the 1 bedroom property and at £93.64 for the two bedroom properties.

### **Update - Phase 2**

10. Phase 2 of the new build programme initially 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.

### **Lonnen Site**

11. Works commenced at the beginning of June 2014 on the Lonnen site and the site was expected to complete before the end of March 2015. The site will include a mix of social rents (14 units) and private sales (6 units). Galiford Try have now advised that the site completion is delayed and not likely to be practically completed until late April. Due to the late completion of the 20 properties a charge of £2,400 per week will be claimed from Galiford Try in line with the penalties for late completion that were included in the contract.
12. The sales properties are 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 those originally factored into financial projections to reflect improvements in the market.
13. There have been a number of interested parties in the sales properties, although the agent has advised that feedback has been that potential buyers have indicated they want to see the properties built before committing. Additionally two potential buyers have enquired about the availability of the Help to Buy scheme in relation to these properties.
14. Enquiries have been made with the Homes and Communities Agency regarding registering Keelman Homes as a vendor under Help to Buy scheme. There are no additional fees for registering to sell properties under this scheme and through the existing Service Level Agreement that Keelman Homes has with Yorkshire Housing, they could take on the role of Help To Buy Agent, again with no additional cost to Keelman Homes.
15. Further to Board approval at the January 2015 meeting, an application was submitted for Keelman to be registered as a Help to Buy vendor and a draft agreement for the Help To Buy scheme has been received and is currently being considered by Legal services.
16. The scheme will enable prospective buyers to access a government backed 20% equity loan to assist with the purchase. Reducing the mortgage needed to 75%.

Buyers are required to pay a 5% deposit. The scheme is expected to make properties more affordable to customers looking to get on the property ladder.

17. The new build properties are 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 those originally factored into financial projections to reflect improvements in the market.
18. 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.*
19. To support the approach to sales and to ensure compliance with the above, the board at its October 2014 meeting, delegated authority to accept offers to the Managing Director (TGHC) and / or the Director of Customers and Communities (TGHC), in consultation with the Chair.
20. As there are potentially going to be other sales and shared ownership schemes going forward it is proposed to bring a sales policy to the next board meeting with a recommendation that any sales properties are progressed in line with the policy and that adherence with the policy is formally adopted as a development principle

### **Runhead Site**

21. Further to the previous board reports advising that this scheme has been deferred to be delivered in 2015, we have been discussing this scheme with both Galiford Try and the HCA to establish the level of grant can be achieved through the HCA's continuous market engagement process. 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.
22. Further to discussion with Galiford Try, they have now advised that they are not prepared to deliver the project for the agreed scheme quotation. A revised summary showing just the Lonnen Scheme is attached at Appendix 2 , which is the extent of the work that will be progressed under this phase of activity.
23. Further to the above, discussions have continued with the HCA to agree design and quality standards and to ensure local office support for a submission for grant through continuous market engagement. A grant application for £25,000 per property was submitted on 6 March. This is a higher grant request than was

originally being introduced by Galiford Try to reflect the abnormal costs associated with service diversions that have emerged on this site.

24. Subject to grant being approved through the continuous market engagement route, the scheme is proposed to be delivered as part of a package with the first phase of sites to be included in the 2015-18 programme.

### **Affordable Homes Programme 2015-2018**

25. As detailed in previous board reports, grant has been secured to support delivery of a further 28 new build units during the 2015 -18 programme. The signed contract has been received. The sites and proposed unit mix are attached at Appendix 3.
26. The process of identifying further sites that can be delivered through the continuous market engagement route is ongoing, although unlike in previous rounds where indicative bids could be submitted, at this stage the HCA require certainty and firm proposals on any additional schemes that are being proposed.
27. 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**

28. Following confirmation of the HCA grant, work has commenced to arrange transfer of the confirmed sites to Keelman Homes and planning applications have been submitted in relation to sites that will be developed in 2015. The Runhead Scheme achieved planning last year. Planning approval was granted for Heddon View on 19 January 2015 and is expected for Malton Green in March 2015.
29. To ensure that these sites can be delivered in 2015, Board are asked to formally agree to the transfer of the sites at Runhead Estate, Heddon View and Malton Green at nil value.
30. Gateshead Council are agreeable to a continuation of the capital finance loan facility to support the next phases of development.
31. 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.
32. The Two Castles Framework that was used to appoint Esh remains valid until December 2015 and they have confirmed they have capacity to deliver further works in 2015-16, once the current phase of new build concludes. Continuing with Esh would provide some continuity and assurance around value for money as framework rates would be honoured.
33. It is proposed to continue with Esh as the delivery partner for schemes at Heddon View, Malton Green and Runhead Estate during 2015, under the above framework. Board are asked to approve the continued appointment of Esh in

relation to this next phase of development. A full financial appraisal of the schemes will be brought to the next board meeting at which time grant is expected to have been confirmed for the Runhead scheme.

34. 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.
35. In relation to the next site to be delivered in 2016, work has started on the development of the proposed scheme at West Park. Early conversations with designers and pre-application planning advice suggests that 10 units will be achievable on this site and the initial proposals are to include 6 properties for affordable rent and 4 properties for open market sale. Further details will be brought to future board meetings.

### **Empty Homes Purchase and Repair**

36. 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.
37. 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.
38. The draft contract for the Empty Homes element of the 2015-18 programme has not yet been issued but available empty properties are being identified in anticipation of the contract commencing.

### **Risk Management Implications**

39. 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.
40. In relation to the Phase 2 sites, Galiford Try have confirmed although properties will not be available for let or sale by the beginning of April they have confirmed that they will be able to claim grant on affordable units as they will be "practically complete". 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 through continuous market engagement and a thorough financial appraisal.
41. 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. To mitigate any rent and sales loss at The Lonnen, damages of £2,400 per week will be passed on to Galiford Try in line with the contract.

42. 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.
43. A number of development principles have been established to ensure that risks of new build development are mitigated.
44. Each scheme will have its own financial model and there will be no cross subsidy between the sites.
45. 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.
46. Each scheme is expected to demonstrate a positive net present value.
47. The same principles in relation to acquisitions will continue to be applied.

### **Financial Implications**

48. 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. The Council are supportive of a continuation of this loan facility to fund further new build activity.
49. 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.
50. As with previous activity, detailed financial appraisals for proposed 2015 schemes will be brought to the next meeting once costs have been finalised and grant levels confirmed.
51. The affordable rents on all properties set will be subject to review and revaluation on completion of the schemes. The board will be receiving a separate report in relation to this.
52. 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**

53. We will be working with both developers to ensure they fulfil their commitment to ensuring considerate construction, with minimal disruption and environmental impact.
54. The Tyne and Wear Fire Service have agreed to fund the installation of sprinkler systems in new build properties in phase 1. The costs associated with the Lonnen have increased since the original grant was obtained and therefore have been removed from the specification. We have agreed that grant from TWFRS

can be passported to future schemes and we will look to contribute to the cost of sprinkler installations.

55. 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**

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

### **Value for Money implications**

57. 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.
58. 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**

59. Briefings have been carried out with Portfolio Holders and Ward Councillors in all wards that will benefit from this activity.
60. 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.
61. All local offices have received briefings on the Keelman Homes activities up to December 2014. This will be replicated going forward to ensure all TGHC employees are aware of activity.

### **Recommendations**

62. The Board is recommended to
- (i) note the update provided and comment on how satisfied it is with the progress made to date;
  - (ii) approve the acquisition of sites at Runhead Estate, Malton Green and Heddon View at nil value;
  - (iii) approve the continued appointment of Esh Construction as the Keelman Homes delivery partner for the next phase of development, subject to scheme costs being finalised. Financial appraisals for each scheme to be delivered in 2015 will be brought to the next Board meeting.

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### Phase 1 –Property Mix and Financial Projections

Cost Summary and financial projections

<b>Site</b>	<b>Site mix</b>	<b>Units</b>	<b>Unit Cost</b>	<b>Projected Contract Sum Cost</b>	<b>Net Cost to Keelman</b>
Kirkwood Gardens	5x2bed flats 1x1bed flat	6	£105,622	£633,735	£513,735
Marion Court	1x 1bed bungalow	1	£84,000	£84,000	£64,000
Strathmore Road	2x 4bed houses	2	£111,576	£ 223,152	£183,152
Felling Library	6x 3bed houses	6	£101,438	£ 608,628	£488,628
		15		£1,549,515	£1249,515

## 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>		<i>New Build</i>		<i>New build –purchase</i>	
Heddon View (LES depot)	2 x 2 bed houses 4 x 2 bed Flats	West Park	6 x 3 bed houses (Rent)	Clasper (Subject to Developer Procurement)	30 Units
Malton Green	4 x 2 bed bungalows				
Runhead Estate (Subject to Grant Approval)	9 x 2 bed Houses 2x4 bed Houses 2x3 bed Houses 5x2 bed Houses			Bleach Green (Subject to Developer Procurement)	30 Units  <i>(Potential for grant on both sites to be pursued 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

*n.b. Additional sales units to be built at West Park (subject to planning) to support financial model on this scheme.*