



Title: New Build and Development Update

Report of: Development and Investment Manager

Purpose of Report

1. The purpose of this report is to provide the Board with an update on the current phases of new build activity.

Background

2. Further to previous reports that have been presented to the Board regarding activity on new build, this report provides a further update on progress since the meeting on 15 May 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.

Update – Affordable Homes Programme 2011-15

4. All of the works commenced during the above phase of Homes and Communities (HCA) funding have been carried out using grant that has been introduced by development partners. The sites developed were split into two separate phases of activity. The first phase of works that commenced were delivered in partnership with Esh Construction Services and successfully saw the introduction of 15 new affordable units across a range of sites. The sites and property mix are included at Appendix 1.
5. As reported to the Board previously, the majority of sites in this phase of activity have already completed and properties have all been let as affordable rented units. The final site that was to be completed in this phase was the Kirkwood Gardens site, with all properties being let during April.
6. The site address has been named as Dunn Court in honour of a fallen soldier from the local ward. The Mayor of Gateshead revealed a commemorative plaque on one of the properties at an unveiling ceremony on 19 June 2015. The event was very well attended with members of Corporal Dunn's family and colleagues from his regiment present.
7. The second phase of activity in receiving grant support in this funding round has been a partnership with Galiford Try and has focused on the development of a 20 unit scheme on the site of the former Lonnen, Sheltered scheme in Ryton.

8. As reported previously, the 14 affordable rented units on this site were declared practically complete in March and HCA grant of £280,000 successfully obtained. The site includes a mix of social rents (14 units) and private sales (6 units) and is included at Appendix 2.
9. It was not practical to take possession of the site or to commence lettings while there was still ongoing construction at the entrance of the site and for that reason sign ups and handovers were delayed until the end of May. Following snagging of the rental properties, sign ups took place during the second week in June and all of the rental properties on the site have now been let.
10. Although now practically complete, there is some detailing to the gables of the sales properties that has been identified as requiring further attention and we are working with Galiford Try to resolve this prior to acceptance of the properties.
11. Access for viewing to the sales properties has been difficult due to ongoing works but this is now at a point where potential buyers can view the units and access arrangements have been made with the local agent.
12. Keelman Homes has now been approved as a Help to Buy vendor with contract signed in April and returned on 21 May 2015. This will now enable us to market sales properties on the site as being available under the Help to Buy Scheme.
13. 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.

Affordable Homes Programme 2015-2018

14. Keelman Homes is now in contract for this programme and with 34 units confirmed with grant. The sites and proposed unit mix with grant confirmed are attached at Appendix 3.
15. 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.
16. A proposed package of works has been negotiated with Esh Construction for delivery in 2015/16. The sites to be delivered in 2015 are Malton Green and due to their proximity, it is proposed that Heddon View and Runhead Estate will be developed out as one scheme. All sites in this phase of works have now been transferred to Keelman Homes ownership at nil value.
17. The Runhead Scheme achieved planning last year. Planning approval was granted for Heddon View on 19 January 2015 and Malton Green achieved planning approval in March 2015.
18. Gateshead Council are agreeable to a continuation of the capital finance loan facility to support the next phases of development.
19. 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.

20. 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.
21. Further to the May board, Esh have been engaged to continue as the delivery partner for schemes at Heddon View, Malton Green and Runhead Estate during 2015, under the above framework although contracts have not yet been exchanged.
22. Having now had a chance to look in more detail at engineering requirements on the sites and obtain firm timescales for service diversions, start dates have been deferred to August for Heddon View and Runhead, with Malton Green to follow on. Revised start on site dates have been agreed with the HCA and will be monitored once detailed programmes are produced.
23. In relation to current and all future phases of work, consultation with Portfolio Holder, Ward Members and local residents has been carried out. This approach will be replicated on any new sites that emerge.
24. 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.
25. An additional garage site in close proximity to the West Park site has been identified as a potential for inclusion in the development with additional grant to be explored through the continuous market engagement route. Firm designs, costs proposals for the scheme and the inclusion of the additional site are currently being explored.

Empty Homes Purchase and Repair

26. 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.
27. 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.
28. The signed contract for the Empty Homes element of the 2015-18 programme was finally received on 9 June 2015. Now that we have certainty and contractual assurance about the grant, work is underway to identify empty homes. Potential acquisitions are being considered alongside demand analysis from TGHC's lettings team to ensure that Keelman Homes is focused on properties that will support a sustainable portfolio.

Risk Management Implications

29. With regard HCA grant on all properties in Phases 1 and 2, the risk to the grant sat with the developers and not with Keelman Homes, therefore there was no

financial risk to Keelman Homes of the completions not being done prior to March 2015, other than the loss in rent and sales opportunities should this occur.

30. 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 appropriate development partners with a proven track record is therefore critical to ensure that the proposed programme can be delivered within timescale.
31. A number of development principles have been established to ensure that risks of new build development are mitigated.
32. The same principles in relation to acquisitions will continue to be applied. As referenced above, in relation to acquisitions, demand analysis on TGHC managed estates is being considered.

Financial Implications

33. 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.
34. 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.
35. 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.
36. 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

37. We will be working with developers to ensure they fulfil their commitment to ensuring considerate construction, with minimal disruption and environmental impact.
38. 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 transferred to future schemes and we will look to contribute to the cost of sprinkler installations.
39. 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

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

Value for Money implications

41. 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.
42. 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

43. Briefings have been carried out with Portfolio Holders and Ward Councillors in all wards that will benefit from this activity.
44. 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.
45. All local offices have received briefings on the Keelman Homes activities and this will continue to be replicated going forward to ensure all TGHC employees are aware of activity.

Recommendation

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

Phase 1 –Property Mix

Site	Site mix	Units
Kirkwood Gardens (Dunn Court)	5x2bed flats 1x1bed flat	6
Marion Court	1x 1bed bungalow	1
Strathmore Road	2x 4bed houses	2
Felling Library (Tarlton rescent)	6x 3bed houses	6
		15

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 –Affordable Homes Programme (New Build – grant confirmed)

Year 1 - 2015/16		Year 2 - 2016/17	
Site	Units	Site	Units
<i>New Build</i>		<i>New Build</i>	
Heddon View (LES depot)	2 x 2 bed houses 4 x 2 bed Flats	West Park	6 x 3 bed houses (Rent)
Malton Green	4 x 2 bed bungalows 9 x 2 bed Houses		
Runhead Estate (Subject to Grant Approval)	2x4 bed Houses 2x3 bed Houses 5x2 bed Houses		
<i>Total New Build Units with Grant Confirmed</i>	28		6