

## Development Committee

### Heath Ave & Denby Rd, Withington

#### 1.0 Introduction

- 1.1 The two sites are situated on the Halle estate in Withington. The Denby Road site is a brownfield site and previously housed flats that were demolished as part of the stock transfer works. The Heath Avenue site currently houses a low rise flat block with 6 x 2 bed flats that will be demolished as part of the development, 2 of which have been a strategic void since December 2018.
- 1.2 It is proposed that a total of 27 new 2 & 3 bedroom houses will be developed across the two sites with 9 houses for rent at Denby Road and 18 house for rent and shared ownership sale at Heath Avenue.
- 1.3 The Halle sites offer the potential to develop new affordable houses which are in very high demand on the estate. The recently completed Wordsworth Road development was let from completion and all 12 of the shared ownership houses were reserved before handover took place and sales completed within 6 weeks of completion of the development.

#### 2.0 scheme details

- 2.1 

<b>Address:</b>	Denby Rd, Withington, M34 7WU Heath Ave, Withington, M34 7FR
<b>Number of units:</b>	27 total Heath Ave - 9 x 2b4p house, 9 x 3b4p house. Denby Rd - 3 x 2b4p house, 6 x 3b5p house
<b>Unit type:</b>	New build
<b>Tenure type:</b>	Affordable Rent and Shared Ownership
<b>Start on site:</b>	March 2022
<b>Practical completion:</b>	March 2023
- 2.2 The scheme will be developed using ilke modular construction with Developer as the main contractor undertaking the site works.
- 2.3 A public engagement event will take place on 6<sup>th</sup> November 2021 and a pre-planning application meeting will be held in November following this. Some initial feedback from Tameside planners has resulted in the inclusion of high pitch roofs to the modular build as the low pitch was considered unsuitable, therefore an additional module is required to meet these requirements. A full planning application will be submitted in December 2019 so that a start on site this financial year can be achieved.
- 2.4 We have undertaken ground investigation which has led to additional reports for coal mining. The identified risks for the sites have been summarised in the risk register at **Appendix 1**.

#### 3.0 Strategic fit

- 3.1 This development offers an opportunity for HA to increase its existing portfolio of stock on the Halle estate and replenish the number of houses that are being purchased by

customers through Right to Buy. It is envisaged that the new properties will provide re-housing options for customers on the estate to allow a future extra care development on another site in HA ownership.

- 3.2 Manchester City Council are very supportive of the scheme and would like to see further development on the Halle estate. The recently completed Wordsworth Road has shown that there is a significant demand for affordable housing in the area.
- 3.3 With regards to management and demand for this new scheme, the feedback received from neighbourhoods and lettings is shown below:

### Comments from Neighbourhoods

Name:	Neighbourhood Manager
Is the scheme location acceptable?	Yes, the scheme is on the existing well established Halle estate where there is a very high demand for affordable housing and resources are already in place for management.
Any impact on current Neighbourhoods resourcing and how to mitigate	We will need to ensure that there are resources available to deal with customers during the disruption of the build process including parking and general enquiries.
Any further risks to be considered and mitigations	We need to allow enough time to relocate the current customers on the Heath Avenue site and find alternative properties to meet their needs. This could impact on the timescales for delivering the scheme.
Should HAA progress with this opportunity?	Yes

- 3.4 The scheme has also been discussed with the Leasehold team at the HA who have confirmed that there is a high demand for shared ownership on the estate and due to the very positive experience at Wordsworth Road, the team would welcome more new homes of this tenure and are very supportive.

### 4.0 Financial & VFM implications

- 4.1 A financial appraisal has been undertaken and reviewed by finance. A detailed breakdown is included in the report at **Appendix 2** and a summary is shown below.

#### Heath Avenue (Site 17)

Works Cost:	£2,504,057
Contractors fees	£174,859
HA fees:	£262,743
<b>Total:</b>	<b>£2,941,659</b>
Grant:	£954,000
RCGF:	£36,000

#### Denby Road (Site 6)

Works Cost:	£1,266,480
Contractors fees	£110,030
HA fees	£110,062
<b>Total:</b>	<b>£1,486,572</b>
Grant:	£477,000
RCGF:	£18,000

- 4.2 The grant requirement for the scheme is significantly higher than grant rates being achieved for affordable rent due to the complexities of modular construction. We have engaged with Homes England who has suggested that the grant rate of £53,000 per unit could be achieved with evidence of costs. There is also an element of RCGF across the two sites totalling £54,000 to demonstrate to Homes England that HA are also making a contribution to the additional costs for modular construction.
- 4.3 QS Associates have been selected as the Employer's Agent for the scheme as they are recognised by the HA Framework for modular construction and are currently involved in a number of other modular projects in Greater Manchester. A Value for Money statement will be produced by the Employers Agent before any contractual commitment is made to ensure that the scheme costs meet the HA procurement requirements.
- 4.4 As part of the HA Procurement Strategy and Financial Standing Orders & Regulations, credit ratings will be carried out on all developer and contractor partners such as Dun & Bradstreet/Credit Safe. In addition, the Procurement team will undertake regular financial monitoring of the contractor in line with the procurement guide.

## 5.0 Recommendation

- 5.1 Approve the scheme details for inclusion in the Development Programme in line with the Business Plan summary approved by Board on 25<sup>th</sup> March 2021.
- 5.2 Approve the submission of a grant funding bid to Homes England in the sum of £1,431,000.
- 5.3 Approve entering into a build contract with Developer in line with the financial appraisal summary at Appendix 2 subject to receiving a VFM statement from Employers Agent.

Appendix 1

Heath Avenue / Denby Road – risk register

Scheme Name: Heath Avenue & Denby Road, Withington, Tameside										
Risk Register Stage: Pre Contract Signing										
Revision Date: 16/09/2019										
	RISK DESCRIPTION	GRADING: 1 (LOW) TO 5 (HIGH)			Recommended Actions / Comments	Further Action	By / Date	RESIDUAL RISK		
		Prob	Impact	Total				Prob	Impact	Risk
<b>900</b>	<b>Failure to effectively grow and manage the asset base in line with the Corporate Plan (Links with HCA risk Stock management and housing quality)</b>									
1	Development Committee approval not received	1	5	5	Present all details for review & discuss key risk items	Keep Development Committee updated with progress	16/10/19	1	2	2
2	Grant rate required exceeds general parameters	4	2	8	Early liaison with Homes England over acceptable grant rates for modular housing	Ensure robust evidence is provided with bid submission to underpin the requirement	01/11/19	1	2	2
3	Contractor increases costs upon conclusion of investigation works	3	5	15	Employers Agent liaising with Developer to finalised CSA and agree design freeze	Allow contingency within appraisal for small additional costs	01/11/19	3	3	9
4	No charge can be put against houses constructed using modular housing	5	3	15	Restrict the number of modular units developed across the programme	Consider other innovative methods of construction	Ongoing	3	3	9
<b>906</b>	<b>Failure to deliver the planned development programme to agreed quality and timescale, within agreed resources (Links to HCA risk New development and Market sales and development)</b>									
1	Scheme delayed due to unforeseen circumstances	3	4	12	EA to keep up to date with programme and monitored through monthly site visits	Programme update from developer every week with factory visits	ongoing	2	4	8

	RISK DESCRIPTION	GRADING: 1 (LOW) TO 5 (HIGH)			Recommended Actions / Comments	Further Action	By / Date	RESIDUAL RISK		
		Prob	Impact	Total				Prob	Impact	Risk
2	Groundworks not sufficient at the point of modular construction	3	5	15	Undertake 'lessons learnt' and liaise with other RPs with experience of modular house / ilke	Ensure clerk of works is experienced in modular housing	ongoing	1	1	1
3	Grant funding not paid due to scheme not meeting funding requirements	2	5	10	Ensure scheme meets funding requirements	Provide updates to Homes England at quarterly meetings and ensure any changes are logged / approved	ongoing	1	1	1
4	Planning department does not approve the amended scheme	2	5	10	Regular communication with Developer to determine updates	Flagged up modular build with planners through Strategic Housing appraisal amended to include costs for high pitch roof	ongoing	2	4	8
5	Pre commencement conditions take unduly long period to clear - affect SOS claim	2	4	8	Allow for additional time when bidding to HE	Work closely with Developer and Tameside Council	31/03/20	2	3	6
<b>907</b>	<b>Failure to maintain future development capacity, in addition to replacing units sold under right to buy</b>									
1	Increase in market price of modular housing	4	4	16	Fixed contract price within the contract	Ensure this risk is covered by contractor in contract	31/01/20	1	0	0
2	Poor financial evaluation of developer partner	3	4	12	Undertake due diligence on contractor partner	Take additional insurances and retention if required	31/01/20	2	4	8

	RISK DESCRIPTION	GRADING: 1 (LOW) TO 5 (HIGH)			Recommended Actions / Comments	Further Action	By / Date	RESIDUAL RISK		
		Prob	Impact	Total				Prob	Impact	Risk
3	Delays in modular production	4	4	16	Confirm lead in times with Developer and factor into the programme	Ensure this risk is covered by Developer in contract	Ongoing	1	0	0
909	<b>Failure to achieve the planned surplus from sub-market home ownership sales, including first-tranche sales and staircasing</b>									
1	Inaccurate market research on supply, demand and values	2	3	6	Get an independent valuation for the scheme and ensure updated 3 months before start and completion	Regularly monitor sales activity within the area. Research modular sales units to ensure customer have knowledge of product	ongoing	2	3	6
2	Use of modular housing affects sales	4	5	20	Marketing campaign with LA to advertise scheme on all social media / website	Create strong brand, build awareness of modular housing	31/03/21	2	4	8
3	Properties are not let	3	5	15	Consult with lettings around housing needs and handovers. Strong marketing campaign.	Regular liaison with lettings and marketing	31/03/21	2	4	8
210	<b>Litigation, contractual disputes or financial failure of contractors</b>									
1	Contractor litigation	2	5	10	Maintain good relationships with contractor partner	Review risk register monthly basis with EA	ongoing	2	3	6
2	Contractor insolvency	2	5	10	Undertake financial checks on contractor and review 3 year accounts	Undertake monthly financial reviews and monitor progress on site closely with CoW	ongoing	2	2	4

## Appendix 2 Heath Avenue – financial viability

	Affordable Rent	Shared Ownership
Peak loan	849,166	653,518
Year of peak loan	1	1
Repayment year	35	35
Net present value	74,067	50,029
Internal rate of return	5.06%	5.00%
Acquisition	0	0
Works	1,112,914	1,391,143
Fees	81,248	141,759
Other costs	77,715	97,144
Interest	17,289	22,447
Total costs	<b>1,289,166</b>	<b>1,652,493</b>
Subsidy	440,000	550,000
Sales		525,000
Net cost	849,166	577,493
Shared ownership receipts		525,000
Number units	8	10
Property value	1,200,000	1,500,000
Year surplus generated	18	22
Asset cover when scheme comes into management	141.32%	136.06%
Year 110% interest cover achieved		3

## Financial Summary

Costs	Scheme	Cost per Unit	Per M <sup>2</sup>	Per ft <sup>2</sup>
Acquisition				
Works	2,504,057	139,114	1,717	160
Fees	223,007	12,389	153	14
Other costs	174,859	9,714	120	11
Interest	39,736	2,208	27	3
Total scheme costs	<b>2,941,659</b>	<b>163,426</b>	<b>2,018</b>	<b>187</b>
Long term receipts				
Shared ownership sales	525,000	29,167	360	33
Subsidy	990,000	55,000	679	63
Capital contribution	0			
Net rent in first year	60,638	3,369	42	4
Loan adjustment				
Long term loan	1,951,659	108,426	1,339	124
Repaid in year	35			
Gross rent yield (over TSC)	2.28%			
Sales receipts	525,000			
Net present value	124,096			
Internal rate of return	5.03%			

## Financial performance

## Appendix 2 Denby Road – financial viability

### Financial Summary

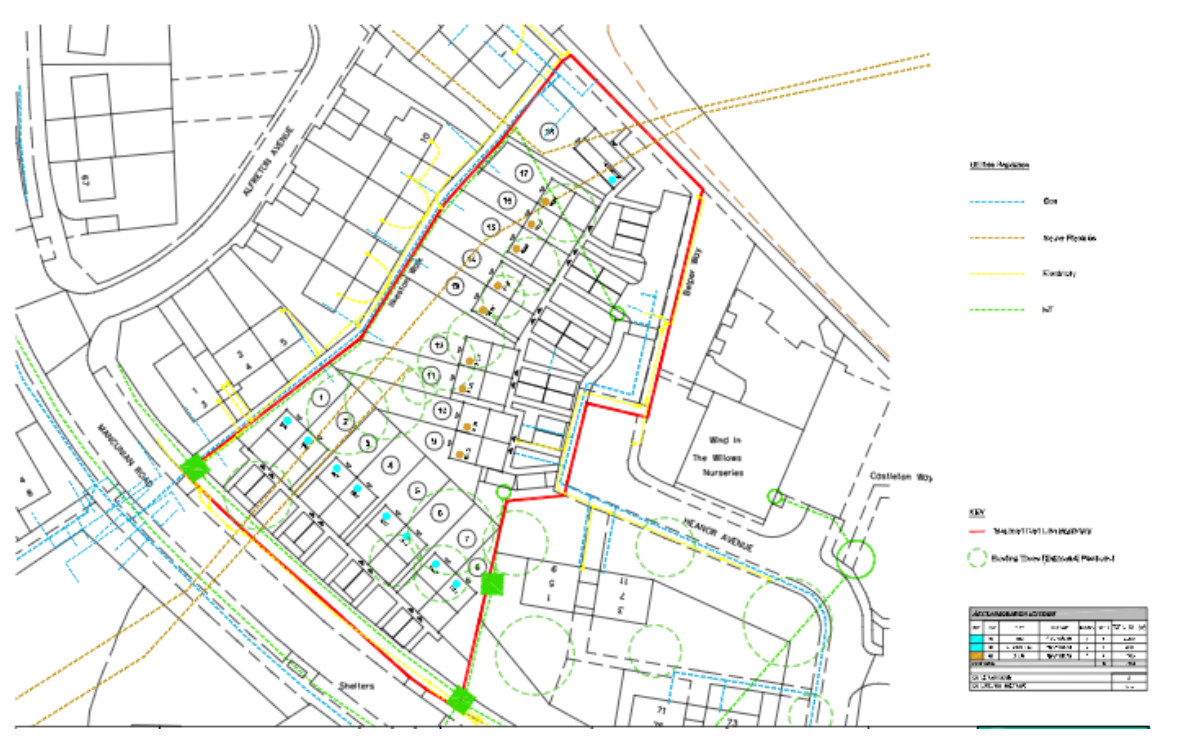
Costs	Scheme	Cost per Unit	Per M <sup>2</sup>	Per ft <sup>2</sup> *
Acquisition				
Works	1,266,480	140,720	1,737	161
Fees	90,613	10,068	124	12
Other costs	110,030	12,226	151	14
Interest	19,452	2,161	26	2
<b>Total scheme costs</b>	<b>1,486,575</b>	<b>165,175</b>	<b>2,039</b>	<b>189</b>
Long term receipts				
Shared ownership sales				
Subsidy	495,000	55,000	679	63
Capital contribution	0			
Net rent in first year	48,505	5,389	67	6
Loan adjustment				
Long term loan	991,575	110,175	1,360	126
Repaid in year	35			
Gross rent yield (over TSC)	3.66%			
Sales receipts				
Net present value	91,528			
Internal rate of return	5.09%			

### Financial performance

	Affordable Rent
Peak loan	991,572
Year of peak loan	1
Repayment year	35
Net present value	91,528
Internal rate of return	5.09%
Acquisition	0
Works	1,266,480
Fees	90,613
Other costs	110,030
Interest	19,449
<b>Total costs</b>	<b>1,486,572</b>
Subsidy	495,000
Sales	
Net cost	991,572
Shared ownership receipts	
Number units	9
Property value	1,395,000
Year surplus generated	40
Asset cover when scheme comes into management	140.69%
Year 110% interest cover achieved	2



### Appendix 3 Heath Avenue – site layout



### Denby Road – site layout



