Advance Northumberland

Board Minutes

Date/Time	**Venue:**
Friday 31st May 2019 13:00 – 16:35	Advance Northumberland, Wansbeck Workspace, Rotary Parkway, Ashington, Northumberland, NE63 8QZ

In attendance:

Cllr Wayne Daley	Deputy Leader NCC (Chair)
Cllr Peter Jackson	Leader NCC
Cllr Jeff Reid	Leader of Liberal Democrat Group
John Woodman	

Present:

Ken Dunbar	Advance Northumberland Managing Director
Colin Dickson	Advance Northumberland Chief Finance Officer
Annabel Scholes	NCC Executive Director of Finance & Deputy Chief Executive
Kim Grant (Minutes)	Advance Northumberland Personal Assistant

Part:

Pam Robertson	Advance Northumberland HR Manager
Michael Black	Advance Northumberland Interim Director of Investments
John Moran	Advance Northumberland Homes Manager

Apologies:

Cllr Richard Wearmouth	Advance Northumberland Chair
Chris Sayers	Chair of Board of Governors, Northumbria University
Daljit Lally	NCC Chief Executive
Neil Bradley	NCC Finance Director/Arch Interim Finance Director

Advance Northumberland

1.0 **Welcome and Introductions**

1.1 The Chairman welcomed the attendees and declared the meeting quorate.

2.0 **Apologies for Absence**

2.1 The Chairman reported that there had been apologies for absence from Cllr Richard Wearmouth, Chris Sayers, Daljit Lally and Neil Bradley.

3.0 **Declarations of Interest**

3.1 Cllr Peter Jackson declared an interest with regards to Bedlington Town Centre.

4.0 **Minutes of Previous Meetings**

4.1 The minutes of the previous meeting held on the 26th April 2019 were **REVIEWED** and **AGREED** as an accurate record of proceedings.

5.0 **Matters Arising**

5.1 The Managing Director informed Board that Michael Black had been appointed as Director of Investments and Economic Growth.

5.2 Following a question from J Woodman regarding the appointment of new directors to the Advance Northumberland Board, the Managing Director confirmed that there would be a report presented to the next NCC Cabinet Meeting to appoint one new member from the Independent Group (Malcolm Robinson), one new member from the Labour Group (Susan Dungworth) and one new member from the Conservative Group (Christine Dunbar). Once these appointments were approved by Cabinet they would be lodged with Company's House.

5.3 The NCC Executive Director of Finance & Deputy Chief Executive confirmed that the NCC Executive Director of HR & OD was working on an advert for new independent Board Directors.

5.4 The Managing Director informed Board that the publication of the Operating Agreement between Advance Northumberland and NCC had been delayed due to the need for further Teckal advice.

5.5 Following a question from the Executive Director of Finance on whether there was any information that needed to be shared with Board in relation to the two recent suspensions, the Managing Director confirmed that a report would be provided. Cllr Jackson commented that, from a Board

Advance Northumberland

assurance point of view, a detailed report should also go to the Advance Northumberland Audit Committee.

6.0 Ratification of Board Decisions Made Electronically

6.1 The Board ratified their previous decision to **APPROVE** the following Policy;

- Financial Delegated Authority

6.2 The Managing Director informed Board that a process was required for the approval of Farrans' Invoices which were above his delegated authority threshold. The Managing Director proposed that the next Invoice would be presented virtually to the Board. The invoice will include the cost report and interim valuation certificate.

7.0 Health & Safety

7.1 The Managing Director presented the report which gave an update on current Health & Safety (H&S) issues.

7.2 The Managing Director informed Board that the new H&S Advisor, Andrew Brooks, would commence his employment with Advance Northumberland on the 10th June 2019 through a Service Level Agreement with NCC. Safety inspections would be carried out via a contractor until that time.

7.3 At the invitation of the Chair, The Executive Director of Finance commented that one of the issues with the H&S Dashboard was around the red risk associated with near miss reporting and questioned what was being done to mitigate this.

The Board:

7.3
- **NOTED** the contents of the report.

8.0 Human Resources

8.1 The HR Manager presented the report to update the Board on current HR activities.

8.2 The HR Manager stated that the current headcount within Advance Northumberland at 30th April 2019 was 127 and labour turnover for the period 2019/20 was 9.44%.

8.3 The HR Manager confirmed that the sickness absence rate for the period ending 30th April 2019 was; short term 16 days, long term 109 days (of which 44 were attributable to accidents at work) which equated to 2.5%. The mean number of day's absence was 0.98 per person. There were 5 people who were classed as being on long term sickness, all of whom were being managed with occupational health support – 2 due to accidents at work, 1 due to recurring ill health and 2 due to stress/depression. All of these issues have had an impact on absence levels.

8.4 The HR Manager stated that recruitment was ongoing with 4 live vacancies, 2 vacancies awaiting approval and 3 posts currently under offer.

8.5 The HR Manager confirmed that completion rates for mandatory training on the NCC portal were being monitored and at the end of April 2019 were 99%. All new employees would complete the mandatory training during the first month of employment. NCC were in the process of "commercialising" the Learning Together portal that Advance Northumberland use for Training. Currently awaiting costs for this and a variety of other training resources.

8.6 The HR Manager confirmed that Advance Northumberland was progressing with plans for Continuing Excellence as part of the Company's on-going commitment to the Better Health at Work award. The assessment date had been deferred to July 2019. New health advocates had been appointed and these have an action plan of activities.

8.7 The HR Manager informed Board that Advance Northumberland's programme of management training sessions was ongoing with a focus on the following areas;

- Managing Investigations
- Managing Hearings
- Advance Northumberland HR Policies

The Finance team would be delivering Finance for non-financial Manager in June 2019.

8.8 The HR Manager stated that, in relation to other training activities, the focus had been on health and safety training, particularly within Ascent Homes and Estates, to ensure there was reduced risk to the business. Each person had a health and safety training needs analysis, which was role specific. Significant elements of this training had been delivered by the health and safety manager, however it was expected that the training would now need to be outsourced. A programme would be drawn up with the relevant manager on a priority basis. These areas would include;

- Asbestos Awareness refresher training
- Working at Heights
- Spill containment
- Pasma Mobile Tower usage
- Scaffold Awareness
- CSCS Cards

Advance Northumberland

8.9 The HR Manager informed Board that a staffing review within Ascent Homes had commenced with the appropriate group of people. It was likely that this would result in a reduction in headcount of 4 people. The timeline for completion was the 7th June, subject to the outcome of the consultation process.

8.10 The HR Manager confirmed that confirmation was awaited of funding for the Business Northumberland Programme. Contracts for the team had been extended until June 2019 to give some continuity and security. [redacted].

8.11 The HR Manager confirmed that the Employee Forum had met on the 15th May 2019.

8.12 The HR Manager went on to confirm that the Staff Survey had closed on the 11th March 2019. Completion rates overall were 81.4%. A working group from across the business has been formed to look at the results and form an action plan to take forward issues raised.

8.13 The HR Manager stated that a review and planning meeting had been held with Advance Northumberland's pensions' advisors. The pension scheme was working well, with low cost and good return on investments. The following areas were being worked on;

- Ensuring compliance with auto enrolment requirements
- Transition to salary exchange scheme
- Auto-enrolment / 3-year review
- Potential change to scheme to introduce employee contributions
- Removing the option of staff continuing with separate pension arrangements.

8.14 The HR Manager informed Board that a flexitime scheme had been introduced, which included finger print technology for recording hours as well as an APP for offsite working. There had been some teething issues with the system, however they were being addressed by the provider working closely with input from the HR team.

8.15 The HR Manager confirmed that Advance Northumberland would be adopting NCC HR policies, as appropriate. Work was underway to align these to Advance Northumberland. The following policies had been submitted to Board for approval following their review;

- Family Leave
- Flexible Working

Advance Northumberland

8.16 The HR Manager stated that Advance Northumberland was working with NCC on the introduction of job evaluation and this would be introduced in the Autumn of 2019. This would replace the system of broad band salary grades that is currently used. The grading process should begin in September 2019.

8.17 The HR Manager confirmed that the performance management cycle was April to March. End of year reviews were due to be completed by the end of April. Completion rates currently were;

- End of Year Reviews – 29
- Objective Setting – 28

As the way of reporting has changed to the online portal additional time has been given for Managers to complete this task.

The Board:

8.18 • **NOTED** the contents of the report.

9.0 Financial Update/Medium Term Financial Plan

9.1 The Interim Chief Finance Officer presented the report and gave the Board an update of the current position and key risks;

[redacted]

[redacted]

Advance Northumberland

[redacted]

The Board:

9.2 • **NOTED** the contents of the report.

10.0 Policies and Plans for Approval

10.1 **Family Leave Policy**

10.1.1 The HR Manager introduced the Policy explaining that the aim of the Policy was to provide staff with information regarding the Company's family leave provisions.

10.1.2 The HR Manager confirmed that the Policy outlined the Company's provisions in respect of family leave including maternity, paternity, shared parental leave and adoption leave. It also detailed the statutory and contractual rights, obligations and responsibilities in relation to family leave for both the employer and employee.

10.1.3 The HR Manager confirmed that this policy was directly aligned to NCC's Family Leave Policy.

10.2 **Flexible Working Policy**

10.2.1 The HR Manager introduced the Policy explaining that Advance Northumberland were committed to the introduction of policies which, where possible and practical, assisted employees to achieve an appropriate work life balance. In furtherance of this general policy Advance Northumberland had introduced a range of schemes e.g. part-time working, flexible working hours etc.

10.2.2 The HR Manager confirmed that this policy was directly aligned to NCC's Flexible Working Policy with the exception of the option of flexi retirement which had been removed.

The Board :

10.3 • **APPROVED** the Family Leave Policy.

• **APPROVED** the Flexible Working Policy.

Advance Northumberland

11.0 **Projects for Approval**

12.1 **Part Exchange**

12.1.1 The Development Director presented the paper to request Board to re-approve the utilisation of part exchange as a conduit to achieve sales for Ascent Homes properties.

12.1.2 The Development Director reminded Board that Ascent Homes had previously successfully used part exchange and had a previous Board Approval (December 2016) to do so.

12.1.3 The Development Director went on to explain that whilst part exchange had been used as recently as January 2018, utilising the prescribed governance structure, for the purpose of clarity and to confirm policy this request for approval had been brought back to the current Board.

12.1.4 The Development Director stated that by utilising part exchange a sale and profit was achieved within Advance Developments and a property acquired into the Advance Homes Northumberland portfolio.

12.1.5 The Development Director confirmed that the use of a part exchange facility is an important tool for house builders to create a sales stimulus. The current market was extremely competitive and Ascent Homes need as many routes as possible to achieve sales, Help to Buy for example being an important sales stimulus. The vast majority of the competition (other housebuilders) utilise part exchange schemes, with some developers achieving a significant proportion of their annual sales via a part exchange route.

12.1.6 The Development Director stated that enquiries as to part exchange availability was made in all of our sales offices on a weekly basis. For example the past month at Bebside and Ponteland indicated that 67% of purchasers who had expressed interest had a house to sell and would be interested in part exchange. It was considered by the sales team that the utilisation of part exchange would greatly facilitate the achievement of sales.

12.1.7 The Development Director confirmed that there was therefore a necessity to agree the process and governance surrounding the part exchange process within Ascent Homes.

12.1.8 The Development Director informed Board that the proposed governance had previously been stress tested through advice from our then retained tax advisors, Ernst & Young. The actual use of the sales stimulus would be controlled by the Development Director to achieve the target value returns stipulated within the Board sign offs for each individual scheme. This would then be overseen and ultimately signed off by the Director of Finance i.e. it would be offered on plots in a controlled manner via the Development

Director to align to the required pace of sales on each individual site. This process being identical to that adopted for the control of deal margins which were governed by the Development Director and signed off by the Director of Finance.

12.1.9 The Development Director confirmed that following the sign off by the Finance Director, a part exchange proposal would then go to Board to ultimately sanction the deal. It was suggested, due to the time constraints on a sale, that this would be done virtually using a standard proforma. This proforma, in addition to both the property details and signature of the Director of Finance, would also provide a statement confirming the purchaser was not part of, a family member, or friend of an employee of Advance Northumberland.

12.1.10 The Development Director stated that due to the Group structure we have two options in dealing with the part exchange property: -

- The properties could be acquired within Advance Housing Ltd and let as PRS or,
- Acquired by Advance Housing Ltd for future resale if appropriate.

The acquisition of the part exchange property will afford the opportunity for Ascent Homes to achieve its sales target, whilst also increasing the PRS portfolio within the Group.

12.1.11 The Development Director confirmed that the funding of the property acquisition would be through an NCC loan and that only properties within Northumberland, within an easily managed location and suitable condition would be considered for part exchange acquisition.

12.1.12 Cllr Jackson left the meeting.

12.1.13 J Woodman asked whether Board were comfortable that the Shareholder loan would be forthcoming.

12.1.14 At the invitation of the Chair, The Executive Director of Finance commented that it would be good to see the PRS strategy and how this would mix with the current portfolio.

12.1.15 The Board commented that a bit more work was required on the type of property acquired through part exchange, how this would impact on the PRS and how it would be approved by NCC.

The Board:

12.1.16
- **APPROVED** the utilisation of Part Exchange as a conduit to achieve sales for Ascent Homes properties conditional upon a clear PRS growth strategy, appropriate due diligence and careful

assessment of the commercial viability of the part exchanged property for Advance Northumberland (Homes).

12.2 Bedlington Town Centre

12.2.1 The Interim Director of Investments presented the paper to advise Board of the recent developments for the Bedlington Town Centre project and to ask Board to both approve the sale of land [redacted] at a revised price and an increase in the estimated development costs.

12.2.2 The Interim Director of Investments reminded Board that the redevelopment of Bedlington had been a priority for NCC and Advance Northumberland since the company purchased the site from Tesco in 2015. On the instructions of NCC the former store and ancillary land interests were purchased by Arch, now Advance Northumberland, [redacted] funded by NCC by way of a capital contribution.

12.2.3 The Interim Director of Investments stated that, as part of the purchase, Arch had already commenced negotiations with [redacted] an anchor store for the scheme and had also attracted investment from other complimentary retailers seeking a presence in the town.

12.2.4 The Interim Director of Investments confirmed that, in September 2015, Board approved feasibility and development funding [redacted] to progress the planning application and demolition in readiness for a mixed use scheme that would redevelop the site and transform Bedlington town centre.

12.2.5 The Interim Director of Investments stated that with the scheme having reached an advanced stage in planning and with heads of terms agreed in principle [redacted] and a number of complimentary retailers in April 2018, Board approved a development budget [redacted]

12.2.6 The Interim Director of Investments confirmed that the total budget approved by Board to date, excluding the purchase of the site, which was funded by NCC and is included at nil consideration in the financial appraisal, was set out in the table below;

Advance Northumberland

[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	

12.2.7 [redacted] The scheme however generated a modest revenue surplus for Advance Northumberland [redacted] when fully let and taking in to account the loan payment to NCC at the commercial rate of 5.75% pa. The scheme however generated a modest revenue surplus for Advance Northumberland [redacted] when fully let and taking in to account the loan payment to NCC at the commercial rate of 5.75% pa.

12.2.8 [redacted]

[redacted]

[redacted]

12.2.9 [redacted]

Advance Northumberland

12.2.10 The Interim Director of Investments went on to state that the tenant schedule had been refined to reflect the challenging times currently faced by retailers in today's market resulting in a reduced commercial floorspace.

12.2.11 The Interim Director of Investments confirmed that the anchor for the Advance Northumberland scheme [redacted] had agreed terms for a 15,000sqft store. The main terms agreed were:

[redacted]

[redacted]

[redacted]

[redacted]

12.2.12 [redacted]

12.2.13 The Interim Director of Investments confirmed that Advance Northumberland had obtained reserved matters consent in September 2018. If approved, a Section 73 would be submitted to amend the planning condition to reduce the commercial floor space element of the scheme. [redacted]

12.2.14 [redacted]

[redacted]

Advance Northumberland

12.2.15 [redacted]

12.2.16 [redacted]

12.2.17 The Interim Director of Investments stated that, ultimately, the decision could only be made by NCC. However, time was of the essence and Advance Northumberland could only satisfy the conditions of [redacted] the remaining retailers once the funding was approved.

If the scheme progresses, it was also worth noting that NCC could have the benefit of Business Rates generated from the scheme and based upon the estimated rental value this could be in the region of £350,000 [redacted].

12.2.18 The Interim Director of Investments confirmed the following revised programme;

- June 2019 – seek NCC approval to non-repayable capital contribution
- June 2019 – submit Section 73 application for variation to planning condition
- June/July 2019 – [redacted] Reserved Matters
- August/September – formalise build contract [redacted]
- October – Advance start construction
- June 2020 – Advance complete development
- June/July 2020 – [redacted] commence development of food-store
- Early 2021 – [redacted] open for trade

12.2.19 The Interim Director of Investments went on to confirm that if approved by Board and NCC approve the financial support required, Advance Northumberland would;

- Progress the sale of the land [redacted].
- Progress with urgency to exchange contracts with [redacted] the remaining retailers in order to satisfy the 20,000sqft pre-let

condition as this is a key milestone which must be met within 18 months from exchange of contracts [redacted].

- Market the remaining retail opportunities to secure retail tenants for the remainder of the scheme.

- Advance Northumberland (Developments) will submit a Section 73 application to vary the planning condition in respect of the reduction in floorspace.

- Advance Northumberland Developments Ltd will enter into the build contract [redacted] and commence construction in October 2019.

- Based on a 40 week construction programme the Advance Northumberland scheme will be completed by July 2020.

The Board:

12.2.20

- **NOTED** the original Board Reports dated September 2015 (Appendix G) and April. [redacted]
- **APPROVED** a [redacted] increase in the total development costs [redacted].
- **NOTED** the revised development programme and risk profile as identified within this report in respect of the timing and costs of the development.
- [redacted].
- **NOTED** the revised net development cost [redacted] and a revised Net Investment Value [redacted] providing a capital deficit [redacted].

[redacted]

12.2.21 Cllr Jackson re-joined the meeting.

13.0 Project Review Reports

13.1 **Advance Northumberland Housing: Hirst**

13.1.1 The Homes Manager presented the report which provided an update on the current Advance Northumberland Housing Ltd (ANH) stock comprising of 1,144 residential units. For reporting and management purposes, the portfolio could be slotted into three subdivisions; Private Rented Sector (PRS), Hirst and Affordable. Although Hirst was technically PRS, due to its volume and complexities it was appropriate that it was managed with its own strategic and operational approach and reported accordingly.

13.1.2 The Homes Manager stated that the focus of this report would be the Hirst, specifically its performance, challenges, risks and future management options.

13.1.3 The Homes Manager confirmed that Advance Northumberland Homes (ANH) owned and managed 424 properties in the Hirst. Consequently, ANH had a dual interest in Hirst's wellbeing: from a public policy perspective, as the regeneration delivery body for Northumberland more widely; and as a heavy commercial investor in a property portfolio in the area. Although demand had outstripped supply for housing within the Hirst for a considerable time now, this decline in demand had worsened in recent years, threatening ANH's asset base and revenues, as well as exacerbating existing social economic challenges of the area.

13.1.4 The Homes Manager stated that ANH's portfolio was spread across the area, which reflected the legacy of its acquisition by the Northern Coalfields Property Company (NCPC) as, effectively, a buyer of last resort. ANH had no more than 30% of the properties on any one street and very few continuous runs of properties.

13.1.5 The Homes Manager went on to state that, from a property management perspective, the occupancy levels within the estate were both the biggest challenge and the biggest concern. Void levels within the portfolio were consistently higher than targeted, with long-term void periods on lower demand units being the most significant factor.

13.1.6 The Homes Manager confirmed that, due to the very low purchase price secured by NCPC, mortgage repayments for the portfolio were nominal in relation to its value and annual rental income. As a result, even with maintenance costs and below target occupancy, a strong operational profit could be reaped. Furthermore, mortgage repayments were due to cease in June 2023, which would mean [redacted] per annum cash saving on capital payment and a further [redacted] per annum profit and loss saving, [redacted]

13.1.7 The Homes Manager went on to confirm that, in financial year 2018/19, the portfolio [redacted] resulted in an annual net profit [redacted].

13.1.8 The Homes Manager stated that any decisions regarding the future strategy for the portfolio would need to fully consider the positive financial impact the Hirst stock make to the organisation.

13.1.9 The Homes Manager went on to state that occupancy levels were a key indicator of portfolio performance, and as aforementioned, high void rates were an issue in the Hirst.

13.1.10 The Homes Manager confirmed that ANH's main barrier with the Hirst occupancy was simply that supply outstripped demand. Long term voids

Advance Northumberland

were an issue throughout the location and the issue was not limited to ANH with large numbers of privately-owned stock also being vacant. That said however, the ANH portfolio overall was performing very well.

13.1.11 The Homes Manager stated that the main issue with regards to letting within the estate is indisputably the lack of demand. The properties themselves were built in circa 1910 and must compete with an increasing number of housing options, many of which were much newer and more desirable. In order to effectively manage the stock in a sustainable manner, a pre-emptive schedule of works is required to ensure properties are properties are fit for purpose, and sufficient budgeting is in place.

13.1.12 The Homes Manager stated that in previous years a relatively nominal amount had been committed to planned maintenance which had caused an increased strain on reactive maintenance budget and resulted in an accumulation of overdue works.

13.1.13 The Homes Manager confirmed that ANH had undertaken an in-house survey of their stock (based on life-cycle replacements) to evaluate the condition and inform works required for a capital investment programme. A schedule of all properties was now held, detailing installation date and life cycle of the various fixtures, fittings and structural aspects of the property. The data from this schedule had informed the formulation of a 25-year programme of works. This programme was inclusive of the following works;

- Re-wiring
- Combi Boiler replacements and central heating system updates
- Damp proofing
- UPVC window and door replacements
- Kitchen replacements
- Bathroom replacements
- External paintworks
- Energy efficiency improvements

13.1.14 The Homes Manager confirmed that the estimated cost of the entire 25 year programme for the Hirst stock [redacted]. These costings were very much a guide at this stage and a full formal tender process would be need to be undertaken in order to progress. Additionally, NCC would be engaged to explore if ANH could utilise their agreed rates, and if support could be received from their Capital Delivery team.

13.1.15 The Homes Manager stated that, due to the aforementioned backlog, [redacted] either overdue or due to be addressed in 2019. Such an excessive amount of work would be both financially and operationally difficult to facilitate, so a programme of inspections would be required in order to inform the priority / urgency of work and the delivery of the programme arranged accordingly.

Advance Northumberland

13.1.16 The Homes Manager went on to state that without commencement of an investment programme the portfolio was open to several risks which threaten its long-term sustainability.

13.1.17 The Homes Manager confirmed that NCC had recently drafted their Housing Strategy 2019-21, it was currently at consultation draft stage, however outlines some core priorities, targets and strategies that have significant bearing on the Hirst Estate. The priorities were; growing our communities, supporting our residents, and improving homes and communities. There were several ways that the utilisation of ANH stock could support these priorities;

- Voids could be utilized to support vulnerable groups and provide specialist housing for older people and those with support needs.
- Adaption of void properties to make suitable for the ageing population to support NCC's Northumberland Extra Care and Support Housing Strategy (2018).
- Subsidised long-term rental of the Hirst properties could provide significant relief to the Homelessness service.
- The units could assist with supporting young people leaving care into suitable and sustainable homes.

13.1.18 The Homes Manager went on to confirm that proposed future strategies to be considered were;

- Maintain status quo of current estate management practices i.e. proactive, market based lettings approach and strategic void management.
- As above but with the addition of the introduction of the capital investment programme. This would see expenditure of £2.03m backlog as well as increased annual expenditure going forward.
- Rationalising the Hirst portfolio. Selective disposal of superfluous Hirst voids would generate substantial income to reinvest in capital works for the remaining stock.
- Formulation and implementation of a large scale investment strategy that would take an all-encompassing view of the opportunities and problems facing the area. To commence this action the key early priority would be to establish a "Regeneration Group" that would develop the vision and master planning for the Hirst.

The Board:

13.1.19
- **NOTED** the contents of the report
- **CONSIDERED** from the options presented in the report, the most economically advantageous approaches to address the challenges of the Hirst and reduce the number of Voids.

13.2 **Wansbeck Business Units Closure Report**

13.2.1 The Development Director presented the report which provided a summary assessment of the success of the Wansbeck Business Units project, identified issues and practices for future projects and formally closed the project.

13.2.2 The Development Director stated that the scheme has been a success in many respects:

- Built on programme and to a high standard
- Achieved a rental income in excess of that budgeted - £5.50 psqft p.a. vs £5.25 psqft p.a.
- Secured a pre-let with strong covenant, Northern Powergrid on a 10 year lease.

13.2.3 The Development Director commented however that the construction cost exceeded the original budget. Whilst this still had provided a profitable scheme, the profit was not achieved until Year 7 against that originally anticipated as Year 4.

13.2.4 The Development Director stated that the report would provide the history and decision making and the market conditions that prevailed and the tests of price and competitiveness that were done with external experienced shed builders which led to Advance Northumberland's own construction team taking on the work.

13.2.5 The Development Director went on to state that although the main focus of this report was the construction performance and the cost overrun in order to glean lessons learned, the basis of Advance Northumberland entering this market needed to be explained. The primary motivation for Construction to enter the market was because it was well appreciated and documented that, in the northeast, private sector companies could not build units of this scale at a cost to sufficiently recover the investment at the rental yields available. Construction inflation was not matched by rental available equivalent increases. Consequently, very few small units were built in the northeast other than large bespoke pre-let warehouses. Construction entered the market because third party contractors could not match competitive costs/m2 with the private sector full overhead recovery and the only way to compete was to maximise using our own construction staff with a reduced staff cost recovery not full overhead. This conscious decision was taken where appraisals and viability was/is marginal in this sector with no private sector providers active for the then Arch to be a regeneration agency in this market. It also meant the margin on these types of project, and any contingency, was tight.

13.2.6 The Development Director confirmed that the conclusions on the review of this one project as a lessons learnt were as follows;

- The original construction budget was not sufficiently tested in relation to the extent of the works e.g. the extent of the new access road and externals in general.

- There had been costs attributed to the project due to the shortfall in workload for the construction team.
- The construction cost and predicted out-turn cost against baseline budget reporting had not been as robust as it should be and did not keep pace with the project as "earned value" snapshots. This meant cost increases were being reported and made visible late in the process (4 weeks ahead of practical completion) whereby mitigation could not be implemented effectively.

The relationship between Project Management and Construction regarding who owns the budget, and decision making against budget, needs to be closer aligned.

13.2.7 The Development Director confirmed that in August 2017, Board approved [redacted] the design and build of two 5,000 sqft industrial units, to be located adjacent to the recently completed Ashington Court. The development was in response to demand identified by Advance Northumberland Commercial at Wansbeck Business Park, where existing units were fully let. Traditionally the build cost of such units has been high compared to the rental demand[redacted]

13.2.8 The Development Director stated that the then Arch and the construction team tested this market with several providers to see whether a JV on some standard size units could be made to work given part of the remit was to expand the asset estate when it was clear private sector intervention would not. External main contractors were unable to deliver the scheme to the budgeted construction costs.

13.2.9 The Development Director stated that, due to the business/job regeneration benefits the scheme would provide to the area, it was determined that the scheme would proceed with the internal construction team delivering managed subcontract packages with the internal PM team. On this small scale of unit the margins were tight and there was little scope for savings. However, against the decision, this model had proved successful on the two previous industrial units of the same size and as such repeat details and known cost datasets gave confidence.

13.2.10 The Development Director went onto state that with these management contracting models there was not a fixed construction cost as there would be with an external contractors tender. There was an estimated budget with contingencies that packages were let from. The added benefit was direct control of groundworks by the construction team. The advantage and the basis of the model was the saving in main contractor overheads and profit allowance on each package, some direct works under control and clarity on variation costs.

Advance Northumberland

13.2.11 The Development Director confirmed that the overall overspend [redacted] was primarily attributed to actual construction costs. The Construction Cost budget was derived from subcontractor quotations and an assumption on preliminary costs by the PM team, informed from previous developments.

13.2.12 The Development Director went on to confirm that the construction overspend related to:

- Additional preliminaries, which were identified as insufficient at the start of the development.
- Duplicated site management due to lack of forward workload.
- Additional costs on the groundworks package.

13.2.13 The Development Director stated that there was a shortfall in the preliminaries budget due to previous scheme costs being insufficient as the construction team set up and delivery had evolved since this previous scheme with improvements particularly from a health and safety perspective which has come with additional cost.

13.2.14 The Development Director confirmed that, for future 'in-house' delivery, the construction team needed to produce the construction budget. This should then be signed off by the Head of Commercial and the Development Director prior to issue to the PM team for their effective sign off and subsequent inclusion with the Board Approval request.

13.2.15 The Development Director stated that the provision of cost reports had not been consistent and the information issued had not been clear. Most significantly cost overruns, whilst valid, had been reported very late in the life cycle of the project, 4 weeks prior to practical completion. The cost reporting had simply not kept pace with the project by the construction team and there had been cost issues known at an early stage (groundwork) which had not been translated through accurately within a cost report in a timely manner.

13.2.16 The Development Director went on to state that cost reports should be provided monthly to the project management team from the construction team. To ensure these were accurate it was imperative that the Head of Commercial (construction team) needed to either present the cost report to the PM team or have at least signed this off prior to presentation at monthly progress meetings. The cost report should follow the standard cost report format, with a costs to complete section, contingency statement and cost risk section. Any cost increase or project risks which could exhaust the construction contingency should be reported to respective team Directors. Any concerns regarding any aspect of the cost report similarly needed to be team elevated to Director level. There should be a more formalised approach to contract administration/cost control than there has been and both internal teams needed to operate in the same way they would if they were working with external contractor/client.

13.2.17 The Development Director informed the Board that the project had remained a success. It had delivered business premises in Ashington, providing jobs to the locality. The development of these units also had a positive benefit to the Council as shareholder in terms of NNDR uplift which will be articulated as a key outcome in future developments of this nature.

13.2.18 The Development Director confirmed that the management of future projects delivered using this model should replicate the formalities and relationships of that when there was an external contractor. There should be a sign off of costs by both team at each project stage by the respective team's management teams; (i) budget, (ii) monthly cost reports.

13.2.19 The Development Director stated that the overspends were all legitimate costs, which would have been incurred should all of the recommendations be put into place. However, the two main issues on the project had been; (i) the initial budget establishment and (ii) in particularly the late reporting of costs. Should the above lessons learned be put into place, this would substantially mitigate these issues and it was recommended that these were incorporated into any future schemes done under this model (there were none planned at present).

13.2.20 Cllr Jackson commented that he would like to see more detail in future closure reports on the broader outcomes including how many jobs were created as a result of the investment.

13.2.21 The Executive Director of Finance commented that new Board approval reports should include a financial sensitivity analysis.

The Board:

13.2.22
- **NOTED** the contents of the report.

13.3 **Jesmond Project Interim Review**

13.3.1 The Development Director presented the paper which showed a record of the cost reports against budget issued to and used by Finance to present to the Ascent Performance Clinics and to give reason for the significant increase in costs in line with the time of their reporting.

13.3.2 The Development Director stated that whilst the aim was to give a concise report on the above it was equally important for it to advise on the steps taken to prevent both these issues causing the increased costs and their late reporting on future projects.

13.3.3 The Development Director reminded Board that the initial budget approval by the Board was given on 1st March 2016, based on an outline scheme costed on a per square foot basis.

[redacted] [redacted]

[redacted] [redacted]

[redacted] [redacted]

13.3.4 The Development Director confirmed that at that time the project was a joint venture scheme [redacted] with this build budget shared on a 50/50 basis, [redacted].

13.3.5 The Development Director stated that, due to the issues as detailed in the report to the Board on 25th May 2018, it was agreed to dissolve the Joint Venture Agreement and draw up a new contract for Arch Development Projects Ltd [as then known] to continue with the build only and enter into a new agreement. At this point the Senior Quantity Surveyor reported a build-cost [redacted] to our Director on the 14th May 2018. This figure was utilised in the evaluation of the works in the exit from the JV Company in accordance with existing legal Joint Venture contract from which Arch Development Projects Ltd (as then known) were exiting. The internal reporting for the build-cost from this date on was used and all future cost exercises were set against this target.

13.3.6 The Development Director stated that the SQS resigned in February 2019 to join another company and a review of the costs were carried out by the Head of Commercial. After meeting the site management, quickly reviewing the workscope in conjunction with the subcontract works packages and taking into consideration further potential liabilities, a new report was produced based on costs as set at 28th February 2019. This produced a revised maximum liability of costs [redacted]. This was issued on the 22nd March 2019. The report scheduled out seventeen major reasons for the significant increase to the previous report.

13.3.7 The Development Director confirmed that other major reasons included;

- Serious issues incurred with poor ground conditions causing additional cost and delay.
- The complexity of the steel framing had not been appreciated and caused additional visits and work to make it work.
- Issues with subcontractors;
  - Groundworks contractor going into liquidation creating additional costs and delay.
  - The death of the steel fixing company's owner who was hands on with the site works, causing delay and costs in securing another subcontractor,

- Issues with the window manufacturer in performance causing substantial delays.
- Changes/detailing by the Consultants being provided to the site team on a just in time basis, preventing any scope for value engineering in looking at alternatives and no opportunity of early cost reporting.
- [redacted] Due to the reduced workload Jesmond, in conjunction with our other sites, has incurred the additional costs of surplus site management staff. This has led to times costs being four times more than budgeted or needed. [redacted]
- Due to all the above contributing delays the over-run against the original programme projected at 39 weeks, [redacted].
- Due to the above, and other related events, the contract has ended with all the dwellings being completed in the last two months of the build (the original programme forecasted Plot 1 as a showhome to be ready by May 2018). This has caused the programme to flat-line, giving no opportunity to gain value engineering or advance forecasting of additional costs on future plots.
- Provisions have been included for several claims made by subcontractors which are currently under consideration. The full value of these claims has been included [redacted] but it is envisaged settlement will be lower than this. Until they are agreed, such sums have to be reported at their full potential liability.

13.3.8 The Development Director confirmed that a number of actions had been taken to improve the performance both in constructing more economically and in reporting on budgets/costs.

The Board:

13.3.9 • **NOTED** the contents of the report.

14.0 AOB

14.1 The Homes Manager presented the paper for Board to consider and advise on the preferred strategy regarding sale or retention of The Granary, Hepscott.

14.1.1 The Homes Manager reminded Board that The Granary was acquired as an executive investment property in July 2016, however it has since proved to not yield sufficient income to generate an operational profit and is not considered a suitable asset to retain within the Advance Northumberland Homes (ANH) portfolio. [redacted]

14.1.2 [redacted]

Advance Northumberland

[redacted]

14.1.3 The Homes Manager went on to state that the property has proved difficult to sell for a number of factors including poor parking provision and property condition following water ingress.

14.1.4 The Homes Manager presented to Board a number of progress options with the most financially viable option being to accept the offer [redacted] and to also dispose of an additional asset to offset the cash loss. 1 Fountain House, Morpeth had been identified as suitable as it had no loan outstanding. Best endeavours would be made to achieve highest possible value, [redacted], however ANH would not proceed with disposal of this unit for any sum less than the [redacted] required to cover the Granary's losses.

The Board:

14.1.5 • **APPROVED** the sale of The Granary [redacted]

14.2 The Chairman thanked the Board for their attendance and closed the meeting at 16:35.

....**CHAIRMAN**