



Subject: NEMCA Brownfield Housing Fund Programme – Kelly’s Yard, Hebburn, South Tyneside
Report of: Principal Housing and Infrastructure Manager
Portfolio: Housing, Land and Development

Report Summary

On 8 September 2023 it was agreed that North of Tyne Combined Authority would act as accountable body for a programme of additional Brownfield Housing Funding secured through devolution negotiations. As part of the £17,409,710 Brownfield Housing Fund (BHF) secured through the Devolution Deal, the combined authority expanded the existing pipeline of sites in Northumberland, Newcastle and North Tyneside to include sites across all constituent authorities of the NEMCA. These schemes are being progressed alongside the £31,830,511 North of Tyne Brownfield Housing Fund and its pipeline of sites. Overall, the Brownfield Housing Fund totals £49,240,221.

NTCA and Local Authorities have worked closely to develop the pipeline of proposals for the Brownfield Housing Fund which was endorsed by the Housing & Land Board and Investment Panel in Autumn 2020 and an updated pipeline was endorsed as part of the Brownfield Housing Fund Delivery plan in July 2022 and July 2023, respectively. The South of Tyne pipeline was published and endorsed in September 2023. Schemes which pass the initial gateway process have been added to the pipeline and invited to prepare a full business case. Kelly’s Yard, Hebburn, South Tyneside is one of those schemes and the first scheme south of Tyne to come forward.

On 8 September 2023, NTCA published a Delegated Decision a report on the NEMCA Brownfield Housing Fund Programme and authorised the Chief Executive (Head of Paid Service) - in consultation with the Investment Panel, the Mayor and the Portfolio Holder to consider and approve relevant business case applications for the NEMCA Brownfield Housing Programme.

The purpose of this report is to approve request the approval of the Kelly’s Yard, Hebburn project, delivered as part of the Brownfield Housing Fund for a total value of £1,945,211.

Recommendations

The Chief Executive, in consultation with the Director of Finance, the Mayor and relevant Cabinet Member and in accordance with the scheme of delegation, is recommended to approve the following funding award, and authorise entry into required agreements to facilitate approvals, as set out in this report:

1. NEMCA Brownfield Housing Fund funding of the amount of £1,945,211 to be awarded to Hebburn Riverside Developments Ltd for the delivery of the Kelly’s Yard, Hebburn project set out at paragraph 1.2 and subject to the conditions set out in this report.
2. To authorise the Chief Finance Officer and Monitoring Officer to:
 - a. prepare the necessary documentation and to enter into grant agreements or contracts with the lead applicant.

1. Background Information, Proposals and Timetable for Implementation

1.1 Background Information

- 1.2 On 8 September 2023, it was agreed that North of Tyne Combined Authority would act as accountable body for a programme of additional Brownfield Housing Funding secured through devolution negotiations. As part of the £17,409,710 Brownfield Housing Fund secured through the Devolution Deal, the combined authority expanded the existing pipeline of sites in Northumberland, Newcastle and North Tyneside to include sites across all constituent authorities of the NEMCA. These schemes are being progressed alongside the £31,830,511 North of Tyne Brownfield Housing Fund and its pipeline of sites. Overall, the Brownfield Housing Fund totals £49,240,221.
- 1.3 To date the following sites have been considered by Investment Panel: Newbiggin Hall; Scotswood The Rise Phase 2; North Shields Masterplan Area; Ouseburn Mouth; Commissioners Quay; Bellingham Mart; Scotswood The Rise Phases 3, 5 & 5A; Moorside; Ellington Colliery Phases 3 & 4; The Esplanade; Lyndon Walk; Walker Riverside and Hadston Industrial Estate.
- 1.4 Kelly's Yard is the next scheme to be brought forward and is the first scheme south of the Tyne to be considered for approval. This site was formerly home to the Hawthorn Leslie Shipyard and Rathbone Community Industry. The site is 3.648 hectares (gross) and is located fronting onto the River Tyne, in Hebburn. The shipyard was the hub of a thriving shipbuilding and locomotive manufacturing industry for a century up to the early 1980s. The relocation of the ship and locomotive manufacturing business to other lower-cost global manufacturing bases in the early 1970s, precipitated a decline of the UK's shipbuilding industry leaving the legacy of a now brownfield site. The site is heavily contaminated, has been vacant since the early 2000's, and is detrimental to the amenity value of the wider area and a source of significant recorded incidences of vandalism and arson.
- 1.5 Hebburn Riverside Development Ltd propose to develop the site and provide 57 new dwellings (12x 1 bed apartments, 16x 2 bed apartments, 2x 4 bed houses and 27x 5 bed houses) and 709m² of ancillary commercial, split equally between a new convenience store and nursery and will bring back into use a site that has sat vacant for a significant period of time. The scheme proposes to adopt low carbon technologies, which will pave the way for the scheme to be zero carbon by 2030. This includes Air Source Heat Pumps (ASHPs) and Solar Photovoltaic panels (PV) to all properties. The developer has also made a commitment to install Electric Vehicle (EV) infrastructure across 100% of the development, with 20% of properties having EV charging points from handover. Planning permission was secured for the scheme in January 2023 with a number of conditions, which are currently being discharged.
- 1.6 Unlocking the first phase of development (57 homes and 709m² of commercial space) is crucial if a wider scheme is to be realised (a further 389 homes) but to do this, the applicant must take a site wide approach to remediation and enabling infrastructure, which is placing a significant cost burden on the initial phase of development.
- 1.7 This site has a viability gap due to the significant demolition of derelict and dangerous structures and the large-scale remediation works required across the entire 3.648 ha site. In addition, delivery of primary enabling infrastructure serving the whole site to enable phase 1 and beyond, has led to a BHF funding application of £1,945,211 to unlock the development.
- 1.8 NTCA Investment Panel considered the proposal on 29th February by Investment Panel and recommended to the Chief Executive (Head of Paid Service) that funding of £1,945,211 is agreed subject to the following conditions:

Condition 1: Establishing the Management Company

The developer to provide the Combined Authority with more details on the creation of a new Management Company which will gain the freehold, and information on the content of leasehold agreements to allow further review.

Condition 2: Professional Eligible Fee Clarification

The Combined Authority ask the developer to provide clarification on the professional eligible fees and detailed demolition and remediation costs (once tendered) that will be sought for the scheme.

Condition 3: Clawback Clause

- a. Grant based on abnormal costs which are set to a maximum sum and subject to 100% clawback of any cost savings.
- b. A full open book assessment completed on scheme once all phases are completed to reflect actual tenure mix, actual scheme cost and value, and units delivered subject to 100% clawback

Project Outline	
Applicant	Hebburn Riverside Developments Ltd
Project location	Kelly's Yard, Hebburn
Start Date	June 2024
Financial End Date	March 2025
Practical completion date (date by which all outputs will be achieved)	June 2025
Total Project Value	£18,565,058
NTCA Grant Requested	£1,945,211
Financial Implications	This forms part of the £49.2m NE Brownfield Housing Fund of which £25.194m has been recommended for approval.

1.2 NTCA Outputs and Outcomes

The following outputs and outcomes will be achieved:

Outputs and Outcomes	
Outputs	Total
ha of net brownfield land redeveloped	3.648 ha
New homes constructed	57 homes with contribution to Local Plan targets and local economic growth.
Total number of Net Direct Jobs Created – measured 1 year after practical completion	16
Total amount of commercial floorspace constructed	709 sqm
Total value of private sector funds leveraged through BHF investment.	£16,619,847
Additional Housing Capacity of Land Unlocked by BHF Investment	389
Net number of Full Time Equivalent (FTE) construction jobs created – Indirect benefit. Measures three months after practical completion	4 FTE
Outcomes	Total
Net Land Value Uplift of over £775,657 (not accounting for future phases)	£775,657
Through a s106 agreement, the developer will make a commuted sum payment of £173,510 towards the delivery of affordable housing elsewhere in the borough, with the alternative (non-assessed) scenario being that 4 affordable accommodation units would be provided at Kelly's Yard itself.	TBC which option is chosen – commuted sum or onsite delivery
Reduction in crime and anti-social behaviour (260 incidents and 18 crimes since March 2004).	Reduction in reported incidences
Economic Resilience - New residents will bring new spend locally, thereby ensuring the financial success and vitality of Hebburn and South Shields. Whilst the assessment of the effects of new spending on supporting business profitability locally, the attraction of new residents will ultimately bring a small benefit to surrounding businesses. Similarly, the attraction of new residents will also widen the labour pool for businesses, thereby bringing efficiencies in recruitment drives.	-
Image, Value, Pride and Place - The project will contribute to Hebburn and South Shields identity, prestige, vision and reputation and renewed confidence in the town will help to improve confidence among potential investor markets, and bring renewed pride of place among communities.	-
Amenity impacts - The delivery of supporting gardens and landscaping works on Kelly's Yard will bring direct improved amenity value to communities. For prudence, no attempt has been made to monetise amenity impacts, although the delivery of much-improved environs will ultimately bring improved amenity and benefit the local community.	-

Milestones

Project milestone	Delivery date
Contract for demolition & remediation appointed	February 2024

Main contractor in place	end May 2024
Start on site	June 2024
Completion of BHF Spend	March 2025
Timescales for BHF outputs to be achieved- Phase 1 by	December 2025 (future phases by 2029)

1.4 Appraisal

Overall RAG assessment	
The Economic Case	Green
The Strategic Case	Green
The Commercial Case	Green
The Financial Case	Green
The Management Case	Green
Overall Rating	Green

The scheme has been appraised by Thrive Economics and presents a strong strategic case that is closely aligned with the Combined Authority's strategic economic objectives. The project makes a considerable contribution to the local economy and regional and national economic priorities. The SMART objectives are comprehensive, achievable and consistent with the nature of the scheme and there is a strong justification for public sector support.

The scheme is fully compliant with BHF eligibility criteria. The development will take place on a brownfield site; the scheme has an evidenced market failure given the significant contamination and challenging site levels; the scheme has a Benefit Cost Ratio well above 1; and the construction of new homes will commence before 31st March 2025.

The development is strongly aligned to the Combined Authority's net zero priorities. The Energy and Sustainability Statement highlights that Kelly's Yard will be the first of its kind in the UK to use artificial intelligence (AI) analysis to optimise its fabric insulation and airtight house and apartment dwelling's construction. The advanced AI informed house typologies present carbon emissions that are 44% lower and apartments 32% lower, than current UK regulatory standards as the default at handover. By funding phase 1 development of 57 homes and unlocking the wider Kelly's Yard site for housing (389 homes), a total of 3,300 m2 photovoltaic panels will be installed site wide, which will provide the site with up to 15% of the total energy required by Kelly's Yard. In addition, the developer has also made a commitment to install Electric Vehicle (EV) infrastructure across 100% of the development, with 20% of properties having EV charging points from handover. This is a significant contribution towards reducing carbon emissions in the region and the developments that the Combined Authority funds.

The scheme represents strong value for money with a BCR of 3.20. The scheme also has a series of SMART objectives which offers an appropriate mechanism for the Combined Authority to measure the scheme's impact, providing housing and employment opportunities through the development of phase 1, in turn unlocking further homes on the wider Kelly's Yard site.

The Commercial Case was assessed to be clear and appropriate. The scheme's business case indicated that the developer will retain ownership of the Phase 1 work, which will be supported by the Brownfield Housing Fund until the point of sale of each housing unit. Apartments will be sold on a long leasehold basis with the freehold to be held by a new Management Company. The appraiser has recommended that a contractual condition be put in place to ensure that the Combined Authority is kept up to date on the arrangements regarding the creation of a new Management Company which will gain the freehold for constructed apartments, for transparency.

The Management Case is considered good with a green RAG rating. The governance structures are clear and appropriate. The developer has demonstrated a good understanding of the risks involved in delivering the scheme and there are appropriate mitigations in place. The Monitoring and Evaluation Plan submitted with the business case confirmed how the scheme's seven outputs will be tracked. The appraisal team has provided a proposed condition that the Combined Authority may wish to include in the Funding Agreement to strengthen the plans for scheme evaluation.

1.6 **Next Steps**

Funding agreements will be put in place and the project will commence delivery.

2. **Potential Impact on Objectives**

2.1 All activity outlined in the report will contribute to supporting economic activities which are highlighted in the Devolution Deal, the Economic Vision and in support of the six design principles for housing agreed by Cabinet in the Delegated Decision report of April 2020. The award of this funding helps us to meet our stated ambitions to increase the supply of new homes in the South of Tyne.

3. **Key Risks**

3.1 The risks associated with this application have been mitigated through funding conditions. These include receipt of a detailed procurement and programme plan with key milestones, the submission of a Red Book Valuation to demonstrate land value, implementation of a clawback clause to mitigate the risk of lower cost values, and the receipt of a Subsidy Control assessment associated with this development.

4. **Financial and Other Resources Implications**

4.1 In line with our agreed claims process, grants will be paid at the agreed intervention rate quarterly in arrears and upon verification of costs.

4.2 The financial completion date for the project is March 2026.

5. **Legal Implications**

5.1 The comments of the Monitoring Officer have been included in this report.

6. **Equalities Implications**

6.1 As required by Section 149 of the Equality Act 2010, the Combined Authority has considered its obligations regarding the Public Sector Equality Duty and there will be no anticipated negative impact on groups with protected characteristics from this proposal.

6.2 An Equalities Impact Assessment has been undertaken and the implications reviewed. The Combined Authority is committed to driving equality and diversity in housing. The measures contained within this paper will assist the Combined Authority to meet its duties under the Equality Act 2010, particularly around advancing equality of opportunity for those with protected characteristics, particularly with regard to socio-economic background.

7. **Inclusive Economy Implications**

7.1 The project contributes to the delivery of the inclusive economy objectives of the NTCA. The project sets out a range of interventions that will grow the economy of the North of Tyne in an inclusive manner providing opportunities to access models of housing that provide affordable and private market sale opportunities, with low carbon technologies to provide heat and energy sources that might otherwise be inaccessible in the open market for residents. The project assists community

growth as well as supporting the wider inclusive economy work of the combined authority by providing high quality, energy efficient and accessible homes.

8. Climate Change Implications

8.1 Overall, the project contributes to the delivery of the climate change objectives of the NTCA. Projects have submitted information within their proposals and have been appraised. The Combined Authority is committed to exploring a range of methods – from modern methods of construction and use of low carbon technologies through to greater use of local suppliers – to reduce the carbon impact of new housing. This project will make use of AI technologies to improve fabric build specifications to provide thermal efficiencies for homeowners and reduce carbon emissions of homes. The scheme will also deliver Air Source Heat Pumps (ASHP) and Photovoltaic (PV) panels to all homes and provide Electric Vehicle (EV) charging infrastructures across 100% of the development (20% of properties to have EV charging points from handover) as part of the development. This will benefit residents directly and provide heat and energy sources for residents and reduce carbon emissions generated by each household.

9. Consultation and Engagement

9.1 Throughout the process, both internal and external consultation has taken place; this has included discussion at Technical Officers Group meeting and Investment Panel. Briefings have been provided in the context of the BHF pipeline of schemes to the elected Mayor and Portfolio lead for Housing Land and Development; both are supportive of the investment. The scheme was consulted externally as part of the planning application and approved, subject a S106 agreement. Consultation and engagement will have included statutory and non-statutory stakeholders and the public. Stakeholder and community engagement was also undertaken with statutory, non-statutory, community groups, landowners, the local authority and parish councils as part of the Masterplan for the site, prior to the submission of the planning application.

10. Appendices

10.1 None.

11. Background Papers

11.1 NTCA Delegated Decision 8th September 2023, Brownfield Housing Fund Programme South of Tyne Pipeline <https://www.northoftyne-ca.gov.uk/wp-content/uploads/2023/09/DD-RECORD.pdf>

12. Contact Officers

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13. Glossary

13.1 ASHP – Air Source Heat Pumps
PV – Solar Photovoltaic Panels
EV – Electric Vehicle Charging
NTCA – North of Tyne Combined Authority

14. Sign-off

1) Portfolio holder: Yes	2) Director of P&P/Head of Service: Yes	3) Director of Finance: Yes	4) Monitoring Officer: Yes
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