

**Manchester City Council
Report for Resolution**

Report To: Executive – 24th June 2009

Subject: Council House Building

Report of: Director of Housing

Summary

To seek Executive approval to bid for funding under the Local Authority New Build Programme to build new Council owned homes. To seek delegated approval to register for Investment Partner Status, enter into a Heads of Terms and Grant Funding Agreement with the Homes and Communities Agency (HCA), to accept grant and build Council housing.

Recommendations

The Executive is recommended to:

1. Approve the proposal to bid for Social Housing Grant to build new Council owned homes for social rent.
 2. To delegate authority to the Director of Housing to submit the pre-qualification questionnaire to the Homes and Communities Agency (HCA) in order to apply to become an investment partner with the HCA under the National Affordable Housing Programme 2008-2011.
 3. To delegate authority to the Director of Housing and the City Treasurer in consultation with the Executive Members for Neighbourhood Services and Finance and Human Resources to finalise the details of the proposed scheme including identification of sites, proposals for deliverability and an affordable financial model and submit the bid to the HCA.
 4. Subject to the Council's bid for funding being successful delegate authority to the Director of Housing, City Treasurer and City Solicitor in consultation with the Executive Members for Neighbourhood Services and Finance and Human Resources to negotiate and agree terms of any funding agreement with the HCA together with any necessary agreements with third parties for the implementation of the scheme.
 5. To support Northwards Housing's separate application to the HCA to become an investment partner under the National Affordable Housing Programme 2008-2011.
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Wards Affected:

North Manchester. Specific sites not identified at present.

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	Continuation of construction work through the economic downturn
Reaching full potential in education and employment	Creation of employment and training opportunities for apprentices
Individual and collective self esteem – mutual respect	Appropriate housing for older people to maximise the opportunities for them to continue actively participating in the community and neighbourhood
Neighbourhoods of Choice	Providing an improved and balanced housing offer to support the City's population and economic growth and improve the quality of place. Ensure that the City's existing housing stock is used effectively

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

The detailed financial modelling has not yet been undertaken. This will be done once a suitable site and scheme have been identified. The principle will be that the future rental income will need to be set at the target rent as a minimum, which is on average around £3.07 more than the average Manchester rents, to be sufficient to meet the annual management and maintenance costs of the properties, together with the annual costs of repaying the borrowing costs in respect of the net development costs. We will be seeking Homes and Communities Agency funding for up to a maximum of 50% of the costs, but due to the Value for Money assessment criteria applied by the HCA, ideally a lower intervention rate will be looked upon more favourably.

Financial Consequences – Capital

Grant funding is available for up to 50% of development costs and the balance will need to be funded using unsupported borrowing. Once a suitable scheme and site(s) have been identified the detailed financial modelling can be undertaken to ensure that the rental income will be sufficient to cover all the associated costs, including the borrowing costs for a period up to a maximum of 50 years, which ties into the PWLB borrowing duration.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Homes and Communities Agency: Local Authorities: Bidding for Social Housing Grant May 2009

Council House Build Gateway 1 Submission

1.0 Introduction

- 1.1 In the March budget the Chancellor announced £100M to be made available for Local Authorities to bid to build Council housing. The Local Authority New Build Programme will be delivered through the Homes and Communities Agency (HCA) and further detailed guidance was made available by the HCA on 12 May 2009.
- 1.2 It is proposed that to take advantage of this new funding a bid is submitted to the HCA to build approximately 40 units of older persons bungalow type accommodation, restricted from Right to Buy, across a number of marginal/infill sites in North Manchester. The allocation of the homes is to be targeted at under-occupiers who will then free up much needed larger family homes for social rent.

2.0 Background

- 2.1 The Council's current Housing Strategy Statement explains the contribution that Housing will make to achieving the aims of the Community Strategy and recognises that the City's long term aims are to provide an improved and balanced housing offer to support the City's population, economic growth and to contribute to creating Neighbourhoods of Choice.
- 2.2 The Community Strategy and the LAA target aims to achieve 60% home ownership. The Statement recognises the need to provide more aspirational family housing for households within the City and for those who wish to move into the City whilst at the same time addressing affordability issues of home ownership. The provision of social rented accommodation is also recognised as playing a role in meeting specific identified needs that are not met by the market.
- 2.3 We continue to strongly promote housing development in the City and are still working towards a Regional Spatial Strategy target of providing 3,500 homes per year, with 20% of these being affordable homes. To achieve this we have worked, and will continue to work with, development partners on a range of "Council sponsored" schemes that provide affordable housing options.
- 2.4 Our current Development Programmes reflect these priorities. At the present time however, due to economic downturn, (mortgage lending restrictions, lack of confidence in the housing market, falling prices) our development partners are encountering difficulties in bringing forward schemes to provide low cost home ownership. This has particularly impacted on development schemes funded through the National Affordable Housing Programme (NAHP).
- 2.5 We are working hard with our partners and stakeholders to minimise the impact on development and maintain progress, particularly on key strategic sites across the City. Where outright sale is not a feasible option in the current market, rather than convert the properties into Social Housing, we are working with our Registered Providers to develop interim tenure options that will, once the market recovers, allow for households to go on to purchase their home. In

this way we will be able to continue to work towards the City's home ownership targets and its commitment to provide mixed income, mixed tenure and affordable housing in every neighbourhood.

- 2.6 Up until very recently the financial and legal barriers to the Council building new housing have proved difficult to overcome. They have included restrictions to Local Authorities being able to access grant funding, essential if the rent is to be affordable to low income households and restrictions on subsidised borrowings (supported borrowing), which is necessary to fund any proposed building programme. They have also included penalties in the form of additions of properties to the rent roll resulting in a reduction in the subsidy required to manage and maintain homes to a Decent Homes standard, discounting of the property value under Right To Buy and the requirement to repay 75% of any capital receipts from the sale of a home into a central government pool which has made building for sale unattractive, and in terms of social housing, carried a risk to the City Council through "Right to Buy".
- 2.7 Recent announcements and two significant review/consultation exercises carried out by Government have, however, offered the opportunity to change the development landscape. These include the announcement by the Housing Minister, Margaret Beckett in January 2009 that Local Authorities should be allowed to borrow from the money markets to help fund social housing programmes together with some relaxation of rules around Right To Buy receipts and the Government's consultation on Council House Building which has resulted in the Budget announcement of 22 April making available £100 million for Council house building.
- 2.8 There is now a real, and urgent, desire to remove the obstacles to Local Authorities building new homes and this has provided the City Council with another way of increasing the quantity and quality of our housing supply and improving access for Manchester residents to affordable housing.
- 2.9 The current funding opportunity is only available to Local Authorities for new house build schemes, which will be available for social rent. This report outlines this opportunity and considers how, by targeting the bid at older persons' homes on sites that would not normally be attractive to private developers, this may add value to our already successful partnership based development and regeneration approaches and assist the City in making better use of existing social housing stock.

3.0 Social Housing Grant

- 3.1 The funding of £100m is to deliver new homes and will be available over the next two years (£30m 2009/10 and £70m 20010/11). The funding will be made up of grant and prudential borrowing and there will be a broad 50:50 split between the two elements. This funding will form part of the £8bn three year National Affordable Housing Programme and will be subject to the HCA NAHP Prospectus for 2008-2011 which articulates the vision and strategic direction for each Region.

- 3.2 Under the programme funding is only available to Local Authorities for new house build schemes, which will be available for social rent, and the funding will be allocated through a competitive process. There are no assumptions about a regional split of funding. Instead the bids will be assessed against the assessment criteria identified in the NAHP Prospectus which are summarised below.
- 3.3 If successful, the City Council will be expected to contribute land at nil cost to the project and will be awarded grant up to a maximum of 50% of the project costs, with the balance being funded through prudential borrowing. The borrowing costs to the City Council must be met from the increased rental income.
- 3.4 A significant number of projects will be expected to start on site within this financial year and all must achieve practical completion before the end of March 2011.

4.0 Assessment Criteria

- 4.1 There will be two bidding rounds. The first has a deadline for submission of 31st July with awards being expected in September. The second round will require bids to be submitted in October with awards announced in December.
- 4.2 In order to bid the City Council will have to first pre-qualify as an investment partner with the HCA. This requires the submission of a pre-qualification questionnaire in the HCA's standard format giving details of the City Council's organisation, financial standing and capacity to deliver projects of this nature. The pre-qualification process takes on average 8 weeks and can run concurrent with the bid in this particular instance.
- 4.3 The evaluation of the City Council's bid will be undertaken separately to the pre-qualification process and will be carried out by assessing the bid against the following four criteria identified in the NAHP Prospectus:
- Value for money
 - Deliverability
 - Strategic Fit
 - Design and Quality

In addition, as the funding is intended to form part of a fiscal stimulus package the bids will also be expected to maximise opportunities to secure community benefits through the creation of employment and training opportunities in the area. These factors are considered in turn below.

5.0 Value for Money

- 5.1 The City Council's bid will need to demonstrate that it maximises the benefits from the available grant and prudential borrowings. The bid will also have to demonstrate that the prudential borrowing for the scheme is supported by the net rental income generated by the new homes to be built. Early financial

modelling indicates that there is the potential to develop a sustainable proposition for the City Council should Executive choose to support it. Detailed costing and analysis will be carried out by the City Treasurer in advance of any bid being submitted and subsequently delivered.

- 5.2 There is likely to be a significant amount of financial and legal development work required around VAT and differential rent models, particularly as the costs of Council new build are not likely to be able to be delivered at the same rental level as existing social housing, unless additional grant/ subsidy of some form is secured. This will require rents to be set at above current rents for similar sized Council owned homes (although all Council rents will ultimately increase to similar levels by 2015) and is likely to require service charges, for example for grounds maintenance, to be levied in much the same way as Registered Providers do so currently. However by targeting the new build to an older client group, who are currently occupying larger homes that are more expensive to rent and run, the potential for financial disadvantage will be minimised.
- 5.3 The Council will carry the risk of whatever properties are developed becoming unpopular and difficult to let thereby reducing the income to repay prudential borrowing. This in turn depends upon the quality of the housing offer and accurate need analysis and demand forecasting. By targeting the quality new build at older people and in particular under-occupiers of social housing, a client group for which we are currently a national pilot and for which considerable strategic needs assessment has been carried out, this risk can be mitigated.

6.0 Deliverability

- 6.1 Bids will be prioritised on the ability to start on site as early as possible and in all cases they must deliver completed homes by March 2011. This almost certainly limits development bids to smaller sites rather than a large site with a rolling programme. The bid criteria point to the use of infill sites and cautions against larger scale development proposals. An exercise to identify sites in North Manchester with build potential had already been commenced in association with Northwards colleagues and is currently being cross referenced with the City Council's housing need and demand data.
- 6.2 The key constraints to early starts will be, amongst other things, site identification, planning approval, site investigations, consultation and procurement methods. Early HCA engagement is being pursued and a multidisciplinary project team has been convened in order to assess deliverability and work up a bid proposal. The group includes representatives from: Housing, Capital Programmes, Planning, Regeneration, Finance, City Solicitors, Green Team, Economic Development, Northwards and Adult Social Care.
- 6.3 Land availability is one of the key factors which determine whether a scheme is deliverable and although the HCA recognise that it is not practicable to secure planning approval within the timescales of the bid process it is

nevertheless important to be able to demonstrate that the proposals fit within the City Council's planning policy framework. Planning have been involved very early in the process to assist in the identification of deliverable sites.

- 6.4 The City Council, if successful, will be responsible for procuring the delivery of the works to build the new homes. Procurement options are currently being reviewed in conjunction with the Capital Programme and City Solicitor's Divisions in order to identify the best approach for the project. The options under consideration include the use of existing frameworks, if available, undertaking a separate procurement exercise targeted at contractors with specific expertise in the housing sector and utilising the expertise of partner organisations.

7.0 Strategic Fit

- 7.1 The city has a deep knowledge of housing need and the ability to tie this in with the physical and community infrastructure required to support neighbourhoods. The HCA are clear that schemes must meet sub-regional and regional strategic priorities and if not will require detailed explanations. They will also need to be evidenced by extensive local needs analysis and have the support of key local partners.
- 7.2 Using this new opportunity could allow us to provide rented homes to meet specific identified needs, in particular locations, as envisaged in the Housing Strategy Statement, and in particular in those areas where, for whatever reason, the market has been reluctant to provide. Whilst the demand for housing across the whole City has risen, we are acutely aware of key gaps in our provision in particular to meet the needs of older people in areas of the City where there is under-occupation of existing social housing and few opportunities for older households to move to appealing alternatives.
- 7.3 It is proposed that allocations to the new build will fall within the Council's current allocation scheme and therefore must be framed to give reasonable preference (RP) to people in the "reasonable preference" categories set out in the relevant legislation (s167 Housing Act 1996). These are, in effect, households in need. A scheme can also make provision for local lettings polices, and for older persons accommodation it would be the case that the scheme would be restricted to older people and, in exceptional circumstances, people with disabilities in need of accessible accommodation.
- 7.4 There is a clear strategic rationale in place for the development of a new Council house build proposal in the North of the City and we have a significant amount of evidence in place already to support the development of general needs housing for older people. We can also identify the customer base with some level of certainty as a result of our National Overcrowding Pilot and the extensive research that has been carried out into under occupation and overcrowding for this area.

8.0 Design and Quality

- 8.1 The City Council's proposals must meet the HCA's design and quality standards and in particular must meet the HCA's Code for Sustainable Homes Level 3. Further, in the guidance issued by the HCA they have indicated that preference will be given to schemes that meet Level 4 under the Code, or higher. There is, therefore, significant potential to link this initiative with the Call to Climate Change and Zero Carbon Homes initiatives. This potential ranges from building the new homes to a high sustainability code level (4 and above), through to build carbon offsetting into the specification for the delivery partner(s), to maximising the potential for green space and community engagement initiatives.
- 8.2 To complement these standards the 'City Development Guide' also seeks a high level of achievement over these and a range of associated design issues in new development. Such standards would also complement the environment of North Manchester which has a substantial amount of green space that is an essential asset in developing the area's role as a high quality residential area.

9.0 Community Benefit

- 9.1 The City Council's proposal will seek to ensure that there will be opportunities to link the building of new Council homes into Training and Employment initiatives.
- 9.2 This can be secured by ensuring that the City Council identifies delivery partners with proposals that include the provision of apprenticeship opportunities and a willingness to work closely with the City Council and partner agencies to demonstrate that we have been able to maximise the benefits and, importantly in the current economic climate, retain employment opportunities through this initiative. As part of its bid the City Council will need to submit a statement outlining how they will achieve this aim and highlighting past experience in working with the construction sector to deliver such benefits.
- 9.3 Officers are also exploring (in consultation with the City Solicitor) the possibility of adopting a local allocations policy which would encourage the uptake of larger family homes, that may be released by under-occupiers moving into the new scheme, by economically active households. Colleagues in Economic Development are keen to ensure that we maximise this opportunity both at a City and AGMA level and work is ongoing to explore opportunities to apply joint build and procurement standards across all of the successful AGMA Council build scheme.

10.0 Next Steps

- 10.1 Subject to Executive's approval it is proposed that officers will develop a detailed proposal for submission to the HCA as part of the first bidding round that is due to conclude in July. In order to meet this challenging timescale delegation is sought to allow officers in consultation with the Executive members for Neighbourhood Services and Finance and Human Resources to

develop the detailed bid in accordance with the principles outlined in this report.

- 10.2 If successful, the City Council will then need to agree the Heads of Terms and a Grant Funding Agreement between the Authority and the HCA. This contract would be binding for the Authority and cover any follow up development activity. The Homes and Communities Agency has published Heads of Terms to cover grant funding, and the City Solicitor will (if possible in co-operation with other AGMA authorities) negotiate the terms of the final agreement. Executive are asked for approval to agree the Heads of Terms and subsequent Grant Funding Agreement with the HCA.
- 10.3 In developing the City Council's proposal it will be important to ensure that the business plan model is based on a set of realistic assumptions for future management (including overheads) and in particular major repairs and void loss. It will also be important to take into account set up costs in the business model. Further, the guidance is clear that Secure tenancies and Right to Buy will apply to the new homes, but is silent on any changes to the current ringfencing arrangements that apply to the Right to Buy scheme, whereby the Council retain 25% of any receipt and the balance is pooled nationally. If this was not addressed it would be a risk to the long term financial viability of any scheme. The CLG has recently consulted on proposed changes to the *Local Government (Capital Finance and Accounting) (England) Regulations 2003* and if enacted this would allow Councils to retain all of the receipts from a subsequent sale of a property. These changes will need to be made by secondary legislation.
- 10.4 Additionally the guidance recognises that in order to ensure the rental income can support the required level of prudential borrowing it will be necessary for the rental levels to be set, as a minimum, at the target rent to reflect the "enhanced" accommodation offer. The average target rent for Manchester is currently £62.80 or £3.07 per week higher than the average rent payable.
- 10.5 In order to allow these schemes to move forward Local Authorities are likely to be required to apply to the CLG for the necessary exemptions under the new Regulations to be issued by the Department following the conclusion of the consultation process. The guidance issued by the HCA recognises that such exemptions will be required and delegation is sought to allow this issue to be addressed as part of the bidding process.

11.0 Northwards Housing

- 11.1 The current funding opportunity whilst welcome will not answer in full the growing need for housing across the City, and in particular in the North of the City. On this basis it is recommended that we take a twin track approach by progressing the Local Authority Council house building whilst at the same time supporting Northwards Housing, the Council's Arms Length Management Organisation, to submit an application for Investment Partner Status with the HCA. This will potentially open up opportunities for Northwards, in consultation with the Local Authority, to access the wider NAHP fund going forward.

- 11.2 In addition, the guidance recognises that whilst the City Council will retain ownership of the new homes, it is expected that management of the new social rented properties will be delivered through the ALMO or partner Registered Providers with Local Authorities retaining management only in exceptional circumstances.

12.0 Conclusion

- 12.1 The proposed approach to Council House building is based on taking a balanced view of this initiative within the wide range of other initiatives we are undertaking to deliver new-build housing and mixed tenure neighbourhoods.
- 12.2 It proposes new house building to fill specific gaps in housing provision to increase housing supply for older/disabled households in order to free up under-occupied family homes.
- 12.3 The scheme will provide a high profile, attractive, affordable and environmentally sustainable accommodation option for people over 60, offering much-needed provision in the north of the city where there is a shortage of such accommodation. The current demographic data for the area suggests the level of demand for this type of accommodation and tenure would be greatest and appropriate to the area.

13.0 Recommendations

- 13.1 The recommendations are set out at the beginning of this report

14.0 Contributing to the Community Strategy

(a) Performance of the economy of the region and sub region

- 14.1 This proposal will contribute to the provision of affordable homes for Manchester's older residents and assist in making best use of existing social housing stock through freeing up under-occupied family housing. It will contribute to achieving transformation to a low carbon economy and to the continuation of construction work through the economic downturn.

(b) Reaching full potential in education and employment

- 14.2 This proposal will increase basic skills and employment through supporting apprenticeships. There may also be opportunities for providing an incentivised-housing offer of released under-occupied family homes for economically active households.

(c) Individual and collective self esteem – mutual respect

- 14.3 Appropriate housing for older people to maximise the opportunities for them to continue actively participating in the community and neighborhood.

(d) Neighbourhoods of Choice

- 14.4 This proposal will provide an improved and balanced housing offer to support the City's population and economic growth and improve the quality of place. It will ensure that the City's existing housing stock is used effectively and contribute to the sustainability of the neighbourhood by offering an attractive housing offer for older people and in releasing under-occupied family homes attract economically active households into areas where there are high levels of worklessness and unemployment.

15.0 Key Polices and Considerations

(a) Equal Opportunities

- 15.1 The implications of this report for the Council's equal opportunities policy are that the scheme will meet an identified need for affordable homes for older people in North Manchester.

(b) Risk Management

- 15.2 The Council will carry the risk of whatever properties are developed becoming unpopular and difficult to let thereby reducing the income to repay prudential borrowing. This in turn depends upon the quality of the housing offer and accurate need analysis and demand forecasting.

(c) Legal Considerations

- 15.3 The City Solicitor has confirmed (paragraph 1.2) that (subject to the detailed arrangements) dwellings provided under secure tenancies for persons of pensionable age may be excluded from the Right to Buy.
- 15.4 The procurement of the delivery of the works to build the new homes will be subject to EC procurement rules and the City Solicitor will advise on the process.